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INTRODUCTION TO INCOME TAX

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PREFACE

THESE pages contain a statement of the law as it now stands after the far-reaching amendments of recent years, but, as its dimensions indicate, this book does not pretend to offer a complete exposition of the Law and Practice relating to Income Tax. It aims at indicating the leading features of the subject, and deals with matters about which there is no sort of doubt. No one can hope to understand the implications of any particular practical problem until he has acquired a grasp of the nature of the framework upon which our income tax system has been built up. With this in mind, the author hopes that treatment of the subject in the manner now presented will meet a real need among students approaching the subject for the first time (for whom this book is intended as a first course of reading) and among tax-payers generally. It is thought that the latter will find it sufficient for the disposal of that large class of income tax perplexities that arise from imperfect understanding of first principles.

As to scope, the book adequately covers the requirements, as regards income tax, of the advanced stages of the Book-keeping and Accounting examinations of the Royal Society of Arts, the London Chamber of Commerce, and kindred bodies, and also the Intermediate examinations of the various professional Accountancy and Secretarial bodies.

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INTRODUCTION TO INCOME TAX

CHAPTER I

GENERAL CONSIDERATIONS

IN order to get a view of the British income tax system as a whole it will be convenient, in the first place, to review some of the ideas underlying taxation generally, and to see how these fundamental principles find expression in the case of the particular tax now under consideration

Every year a careful estimate is made of the expenditure to be incurred on national services during the ensuing twelve months, and the Chancellor of the Exchequer in his Budget speech in the spring, places before Parliament proposals for raising sufficient revenue to meet this expenditure. National revenue is derived from various sources, the most important of which is taxation of one kind and another. Now, in imposing taxation, several important points (e.g. yield, collection, ability to pay) must be kept in mind.

The yield of any tax will depend upon the rate of tax multiplied by the number of times it is successfully imposed. The expenses of collection must be kept proportionately low, and evasion made as difficult and dangerous as possible. Heavy penalties are provided for evading the Acts relating to income tax, while an exceptionally efficient administrative machine has been set up to ensure that the provisions of the law are vigorously applied. Much ingenuity has been devoted to the discovery of loop-holes in the legislation which offer a means of escape from liability. This is not the same thing as evasion, which means evading payment of tax for which liability has been legally incurred. Taxing acts must be

construed literally on the printed word, and it might quite well happen that, although our legislators intended to impose tax in certain circumstances, they did not succeed in getting that intention within the meaning of the words set down in the Acts. On the other hand, items that were never intended to attract liability find themselves the subject of taxation. The precise interpretation of various sections of the Acts is constantly the subject of litigation. Hence it is to the decisions of the Courts that we must look for guidance as to the practical effect of the Income Tax Acts. It is, of course, always open to the Government to pass amending legislation to remedy the law, as laid down by his Majesty's judges, where the decisions show that flaws in the system exist.

Taxation at the Source.

The difficulty of collecting taxes is as ancient as taxation itself. Both to secure economy of administration and to prevent evasion, income is largely subject to taxation at its source, that is to say, a person paying interest on loans, dividends on stocks and shares, rents of property, etc., to another person, is required to pay the income tax thereon to the Revenue authorities, and in return he is given a statutory right to deduct the amount of the tax so paid from the payments he has to make to that other person. The argument appears to be that it is a matter of indifference to, say, a tenant, to pay a part of his rent to the tax collector, while it is a matter of varying difficulty, human nature being what it is, to extract tax from a person after he has received his income in full, and has had time to spend it.

This principle of deduction of tax at source is of fundamental importance in income tax practice. It frequently leads to over-taxation of individuals who are not liable to tax at all, or who are liable only to tax of an amount lower than the sum deducted. The mere fact that a person has suffered tax by deduction made from his income does not necessarily mean that he is legally liable to bear such tax. If too much tax has been paid, the remedy is to lodge a claim for repayment.

Hence, it is important to know just how much tax is payable, by reference to the total amount of income, and to any concessions that may be available in any particular case, irrespective of any questions as to the source from which the income is derived. On the other hand, a person may find himself compelled to pay tax in excess of the amount appropriate to his own income. He has, in fact, to pay tax for someone else. In that case the remedy is to deduct the amount of the tax from the payments he has to make to that other person.

"Ability to Pay."

That taxation should be placed upon those shoulders best able to bear it, is a proposition about which there is general agreement, on grounds of simple justice as well as on grounds of the fruitfulness of the tax. More tax will be collected from people who can well afford to pay heavily than from those who can ill afford to pay a little. There is, however, likely to be some disagreement upon the identity of the persons best able to pay, but with that argument we are not concerned here. It is interesting to see how the principle of "ability to pay" has been worked out in the income tax system.

Income tax is a levy of so much (at present four shillings) on every pound sterling of persons' incomes. Now, although this does imply that the larger incomes will bear more tax than the smaller, it is not sufficient to conclude that no further adjustment requires to be made. It is necessary to look beyond the purely arithmetical calculation involved in that conclusion.

Let us contrast the case of A, whose income is £10,000 a year, with that of B whose weekly wage is £2 10s. Assuming a uniform rate of 4s. in the pound, without any sort of compensation or adjustment, A will pay £2,000 and B will pay £26 a year. One feels instinctively that B is going to find it harder to pay his tax than A. The reason is, of course, that it is more difficult to enjoy life on £2 a week than it is on £8,000 a year, the respective amounts left after payment of the tax. Similarly, if A's income increased by £13 a year, his

circumstances would not be improved in the same proportion as B's would be, if he got a rise of 5s a week, further, the tax (£2 10s) on the additional income would probably deprive B of things he would be all the better for having, while A would have to keep accurate accounts to be aware of any change in the rate of his personal expenditure

Consequently, we find that the smallest incomes are not taxed at all, which is quite in accord with the line of thought indicated above. There is also another practical point to be borne in mind, namely, that the costs of administration are proportionally higher for small amounts of tax. While the smallest incomes do not attract tax, the largest incomes are subjected to an additional tax (Sur-tax), the amount of which is graduated according to the excess of income over a certain specified figure.

Having looked at the extreme cases, let us now consider the intermediate. As income increases, so the "utility," that is the economic satisfactions that can be purchased with equal additional increments, tends to fall. A further £10 a year at £200 a year can purchase more human satisfaction than a further £10 a year at £500. That is not to say that the £10 in the second case is not useful at all. It might be that owing to his particular temperament the £500 a year man was in greater actual need of the £10 than the £200 a year man. But generally speaking, it is safe to say that the poorer person will have more need of money, and therefore, his wants being greater, the utility of the money is greater in his hands. Throughout the whole range of incomes, one may note a series of stages, which one associates with the ideas "bare subsistence," "comfortable," "well-to-do," and "wealthy," each stage shading off into the next without well-defined limits of demarcation. From a theoretical point of view it is not necessary to do much more than to indicate these features in a general way, but when it comes to so practical a matter as taxation, it is vitally necessary to be precise, to translate these ideas into terms of pounds, shillings and pence, and to fix definite points at which any proposed variations in the rate

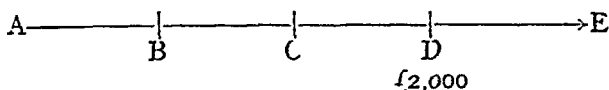
of taxation shall operate. If there were no complications these points could be fixed for universal application. We could say, "Everybody whose income is less than £150 shall be exempt, if the income exceeds £150 but does not exceed £400 the tax shall be 2s. in the £, on the excess over £400 there shall be a tax of 4s. in the £," and so on up the scale. But there are complications, concerned with the personal circumstances of the individual taxpayers, and affecting their capacity to pay.

Allowances.

Some incomes have to maintain more than one individual. A married man is required in law to maintain his wife and children. One frequently finds a member of a family supporting one or more relatives. A person whose income is earned by his own exertions is under greater necessity to save out of his income, in order to make provision for his old age or for his dependants, than is a person whose income is derived from the investment of capital, since the source of income in the latter case remains undisturbed by the age, health, or death of the owner of it. One cannot ignore these considerations in gauging capacity to pay. They have the effect of shifting the "subsistence" point on the income scale. A single man might get along fairly well on £100 a year, but a man with a wife and six children will not normally be able easily to save £20 from an income of £120. In order to meet difficulties of this character, a system of allowances has been worked out, designed to bring all taxpayers to some common footing. It is a kind of handicapping scheme. Shortly stated, the scheme is to relieve the individual of the tax on the amount of the allowances to which his circumstances entitle him. The allowances are fully dealt with in the next chapter, but the diagram at the top of the next page may, perhaps, assist the reader to understand the general principle.

The line A-E represents the direction in which income increases from zero. A-B represents an amount of income equal to the allowances on which the individual is entitled to relief at the full standard rate of tax. The position of the

point B will, of course, vary according to circumstances. If the individual's income is less than A-B, then no tax is payable. B-C represents the range of income which is taxed at



half-rate only, C-E is the range of income which is taxed at the full standard rate, while D represents the point beyond which additional tax (Sur-tax) is imposed. The point D is fixed at £2,000.

What is "Income"?

"Income" is a word peculiarly difficult to define. Everyone has a notion of its meaning, and in a large number of transactions there is not likely to be any doubt as to whether particular items received are "income" or "capital" receipts. A salary is "income" and a legacy is "capital". There are, however, many border-line cases not so easy of classification. For income tax purposes we are not called upon to define, in any absolute sense, the word "income". The method of the Income Tax Acts is to charge tax upon "property, profits, and gains," to classify different types of "property, profits, and gains," and to prescribe rules for assessing them according to their nature. Section 1 of the Income Tax Act, 1918, reads as follows—

1. Where any Act enacts that income tax shall be charged for any year at any rate, the tax at that rate shall be charged for that year in respect of all property, profits, or gains respectively described or comprised in the Schedules marked A, B, C, D, and E, contained in the First Schedule to this Act and in accordance with the Rules respectively applicable to those Schedules.

For practical purposes, we do not inquire whether any item is actually a profit or gain, it is rather to the question, "Is this included in any of the Schedules as income assessable to tax?" that we must address ourselves. Interpretation of the Acts is, therefore, a very important matter, and there have

been a great many decisions in the Courts bearing on this difficult problem of what is to be charged under the Schedules. The possibilities of further litigation on the subject have by no means been exhausted, but here we are concerned only to indicate the attitude to be taken in regard to the ascertainment of income for tax purposes, viz. Do the Acts as interpreted by the Courts require this item of receipt to be charged under any particular Schedule? If so, under what Schedule, and what are the relevant rules?

Scope of Tax.

Income tax extends to all income arising within the United Kingdom, whether the recipient of the income is resident in the United Kingdom or not. In the case of residents in the United Kingdom, the tax also extends to all income derived from abroad, whether received in the United Kingdom or not.¹

Year of Assessment.

For the purpose of taxation, income is computed by reference to the income of one year, except in the case of weekly wage-earners. Section 2 of the 1918 Act (as amended) reads—

2 Every assessment and charge to tax shall be made for a year commencing on the sixth day of April and ending on the following fifth of April, except where under the provisions of this Act weekly wage-earners are to be assessed and charged half-yearly.

The period 6th April to 5th April following is known as the year of assessment. It is the statutory income for this period which is taxed. The statutory income is not necessarily the actual income received during the period. Tax is charged, and has to be paid, before a full year's income has been received, that is, before the 5th of April. For some classes of income the profits of the preceding year are taken as the statutory income of the year of assessment, but see the later discussion of the various methods of assessment under the five Schedules.

¹ See, however, Schedule D, Cases IV and V, for exceptions to this general statement.

CHAPTER II

RELIEFS AND ALLOWANCES TO INDIVIDUALS

THE reliefs and allowances to which *individual* taxpayers, resident in the United Kingdom, are entitled are dealt with in this Chapter. The word "individual" should be noted. It has the same meaning as in familiar speech, and does not include bodies corporate, e.g. limited companies, which are in the legal sense "persons". To secure the reliefs the individual must—

- (a) render a return of his total income from all sources and
- (b) make a claim for the allowances,

on the form provided for the purpose. It cannot be too clearly stated that the source from which income is derived does not affect in the slightest the right of the individual to claim the allowances appropriate to his case. Neither does it matter whether the income has been taxed at source or not. If these allowances have not been claimed a claim for repayment of excessive tax paid can be made at any time within six years after the end of the year of assessment to which it relates. Thus a claim can be made in the year 1929-30 for any year not earlier than 1923-24. In the examples which follow the reader should understand that the income upon which the various computations have been based is the statutory income in every case. The method of arriving at the statutory income is dealt with later (see Chapters IV-VIII). It should be noted that the allowances are given by way of deduction from the amount of tax which would otherwise be payable. For example, if A's income is £400 and he does not make any claim for relief, he will be liable for tax on the whole of it. If he does claim he will be relieved of tax to the amount indicated below, on the allowances due to him. If the whole of the

income is subject to deduction of tax at the source, the reliefs can be given only by way of repayment

Earned Income Allowance.

This is an allowance of tax at the full standard rate on one-sixth of all earned income, but not exceeding in the case of any one individual tax on £250

EXAMPLE 1 Total income £350 of which £50 is unearned and £300 earned

Tax at standard rate (4s) on £350	£70
Deduct tax at standard rate on allowances—	
Earned income relief (one-sixth of £300 = £50)	10
	<hr/>
Tax payable (subject to any other reliefs)	<u>£60</u>

EXAMPLE 2 Total income £3,500, of which £500 is unearned and £3,000 earned

Tax at 4s on £3,500	£700
Deduct tax at 4s on allowances—	
Earned income allowance (£250 maximum)	50
	<hr/>
Tax payable (subject to any other reliefs)	<u>£650</u>

The expression "earned income" has, broadly speaking, the same meaning as in ordinary speech. For the statutory definition see Appendix I

There is, however, one special case in which unearned income, e.g. income from investments or property, may be treated as earned for the purpose of this relief. If an individual proves (1) that either he, or his wife (living with him) if he is a married man, is of the age of 65 years upwards at the commencement of the year of assessment, and (2) that his total income for the year of assessment does not exceed £500, he will be entitled to treat his unearned income as earned for the purpose of the one-sixth relief

EXAMPLE 3 B is 66 years of age. His total income is £480, £200 of which is earned, and £280 derived from investments, B can treat the whole of his income as earned and can claim

an allowance of tax at the standard rate on £80, i.e. $\frac{1}{4}$ th of £480

Notice that a man who is under 65 years of age can establish a claim under this section if his wife is over 65

Special provision is made for those individuals who would be entitled to this relief but for the fact that their total income exceeds £500 by a small margin. The necessity for some provision will be readily apparent. C, over 65, derives an income of £498 entirely from property. He is entitled to relief under the rule on £83. The following year the assessments on the property are increased so that his total statutory income is, say, £505. His income has increased by £7. If he were given no benefit under the rule he would have to pay tax on £90 more than in the previous year. Where the income exceeds £500 the tax on the total income may be reduced to the sum of the following amounts—

(1) The tax which would have been payable if the income had not exceeded £500, and

(2) one-half of the amount by which the total income exceeds £500

An example illustrating the operation of this marginal relief will be found on page 19. It is postponed until the other reliefs have been dealt with, since they have to be taken into account in ascertaining the amount under (1) above.

Personal Allowance.

If the claimant proves that he has his wife living with him, or that his wife is wholly maintained by him, during the year of assessment, he is entitled to an allowance of tax at the standard rate on £225. In any other case the claimant is entitled to an allowance of tax at the standard rate on £135.

For income tax purposes, a wife's income is deemed to be the income of the husband, and he is liable to pay the tax thereon, but there are special provisions for separate assessment where either of the married persons claims it. If the total income includes any earned income of the wife the personal allowance is increased by $\frac{4}{5}$ ths of the amount of the

wife's earned income, but not exceeding in any case an increase of £45. If, therefore, in addition to the husband's income a wife earns anything up to £54 a year, none of her earnings will attract tax, for there will be a deduction of $\frac{1}{8}$ th for Earned Income Allowance, and a deduction of the balance for Personal Allowance. Notice that the maximum addition brings the total personal allowance up to £270, or twice the amount of the allowance for single persons.

EXAMPLE 4 Married man, wife living with, or maintained by, him

Man's earned income	£600
Man's unearned income	104
Wife's unearned income	36
Total income	£740
Tax at 4s on £740	£148
Deduct tax at standard rate (4s) on—	
Earned income allowance	£100
Personal allowance	225
	<u>£325 @ 4s</u>
	65
Tax payable (subject to any other reliefs)	£ 83

If the wife's income were earned instead of unearned the position would be—

Tax at 4s on £740	£	s	d
	148		
Deduct tax at standard rate (4s) on—			
Earned income allowance	£100		
Personal allowance	255		
	<u>£361 @ 4s</u>	72	4
		—	—
Tax payable (subject to any other reliefs)	£ 75	16	—

The tax payable in this latter case is the same as it would be if there were no wife's income

Tax at 4s on £704 (£600 + £104)	£	s	d
Allowance of tax on £325 (£100 + £225)	140	16	—
	65	—	—
	<u>£ 75</u>	<u>16</u>	<u>—</u>

EXAMPLE 5 Single person

Unearned income		£ 500
Earned income		600
	Total income	<u>£1,100</u>
		<u>£220</u>
Tax at 4s on £1,100		
Deduct tax at standard rate on—		
Earned income allowance	£100	
Personal allowance	135	
	<u>£235 @ 4s</u>	<u>47</u>
Tax payable (subject to any other reliefs)		<u>£173</u>

Children.

The allowance in respect of one child is tax at the standard rate on £60, and for each subsequent child, tax at the standard rate on £50

CLAIMANT'S OWN CHILD The claimant must show that the child was living during the year of assessment, and either (1) that the child was under the age of 16 years at the commencement of the year of assessment, or (2) that if over 16, the child was receiving full-time instruction at any university, college, school, or other educational establishment

Step-children, and illegitimate children if the parents have married each other after the birth of the child, are treated as the claimant's own children

OTHER CHILDREN If the child in respect of whom a claim is made is not the claimant's own child he must also prove—

(1) that he has the custody of the child and maintains the child at his own expense, and

(2) that no other individual is entitled to claim an allowance in respect of the child, or if any other individual is so entitled, then that individual has relinquished his claim thereto

This provision covers every case where the child in question is not the claimant's own child, and enables a claim to be

made for adopted children, and for brothers and sisters of the claimant

No allowance will be made in any case where the child is entitled in his own right to income exceeding £60 a year. In calculating the income of the child, no account is to be taken of any income to which the child is entitled as the holder of a scholarship, bursary, or other similar educational endowment.

Relatives Taking Charge of Children.

If the claimant is a widower and, for the purpose of having the charge and care of any child of his, has resident with him in the capacity of housekeeper a female relative (or, if no female relative is able and willing to act, then some other female person) he is entitled to an allowance of tax at the standard rate on £60. A widow may in similar circumstances claim the allowance. A relative includes a relative of either the deceased or the surviving spouse. A child means a child in respect of whom an allowance of tax is made. The claimant will have to show that no other individual is entitled to claim any allowance in respect of the "housekeeper," or if any other individual is so entitled, then that individual has relinquished his claim thereto. No deduction will be made if the housekeeper is a married woman, and her husband has claimed and has been allowed the £225 personal allowance.

EXAMPLE 6 Widower Income £540 earned Entitled under the conditions set out above to allowances for two children and housekeeper

Tax at 4s on £540		£108
Deduct tax at standard rate (4s) on—		
Earned income allowance	£ 90	
Personal allowance	135	
Children (£60 + £50)	110	
Housekeeper	60	
	<hr/>	
	£395 @ 4s	79
Tax payable (subject to any other reliefs)		<hr/> £ 29

Allowance for Widowed Mother, etc.

An allowance of tax on £60 may be claimed by an unmarried person who has living with him (or her) his (or her) widowed mother, or some other female relative, for the purpose of having the charge and care of any brother or sister of the claimant. The claimant must show that the brother or sister is a child for whom an allowance has been made, that he (she) maintains the mother or other relative at his (her) own expense, and that neither he (she) nor any other individual is otherwise entitled to any allowance in respect of the same person, or if any other individual is so entitled, then that other individual has relinquished his claim thereto. An allowance under this section may also be claimed where the mother, although not a widow, is living apart from her husband.

Allowance for Dependent Relatives.

Where the claimant maintains at his own expense any relative of his, or of his wife's, who is incapacitated by old age or infirmity from maintaining himself, or his or his wife's widowed mother whether incapacitated or not, he is entitled to an allowance of tax at the standard rate on £25, for every such person. No allowance can be given if the total income from all sources of the dependent exceeds £50 a year. A woman may claim in like circumstances for relatives of her own or of her husband.

A similar allowance may be claimed where an individual is by reason of old age or infirmity compelled to depend upon the services of a daughter. The daughter must be resident with, and maintained by, the claimant.

If two or more persons maintain the dependent, the allowance will be apportioned according to the respective contributions made by the claimants.

EXAMPLE 7 A, whose salary is £600, maintains his brother aged 10 and his sister aged 6. He has living with him for the purpose of having the care and charge of the children, his aunt. There is also an invalid brother aged 20, whom A supports.

Assuming that all the requirements are complied with, the tax payable by A will be as follows—

Tax at standard rate (4s) on £600	£120
Deduct tax at standard rate on—	
Earned income allowance	£100
Personal allowance	135
Children	110
Allowance in respect of aunt	60
Allowance for dependent relative	25
	<hr/>
	£430 @ 4s 86
Tax payable (subject to any other reliefs)	<hr/> £ 34 <hr/>

Allowance of Tax at Half-Standard Rate.

The income tax system is so designed that the first £225 of income which is actually taxed is taxed at half the standard rate only. This is effected by allowing a further deduction of one-half of the tax payable after deducting the "full standard rate allowances". The deduction is, however, limited to tax at the half rate on £225. Thus, in Example 7 above, a deduction of £17 may be made, leaving £17 tax payable. In Example 5 the deduction will be £22 10s, the maximum.

Relief in Respect of Life Assurance Premiums.

It is generally known that some relief is available for premiums paid on policies of life assurance. The precise conditions are, however, not so widely appreciated. A considerable difference exists between the treatment of policies effected up to the 22nd of June, 1916, and insurances effected after that date. The conditions to be complied with are set out under three headings, showing the conditions common to all insurances, and the special conditions for the separate classes enumerated above.

GENERAL

(1) The insurance must be on the life of the claimant or of his wife

(2) Premiums paid by a wife out of her separate income, in respect of an insurance on her, or her husband's, life, rank for an allowance of tax in the same way as premiums paid under (1) above

(3) The insurance company with whom the insurance is effected must be legally established in the United Kingdom, or in any British possession, or lawfully carrying on business in the United Kingdom

(4) Relief is given in respect of policies effected with a Registered Friendly Society

(5) Relief is given on payments made by a person who is liable under any Act of Parliament or under the terms of his employment, to make such payments (whether by deduction from his salary or otherwise) for the purpose of securing a deferred annuity to his widow, or provision for his children after his death

(6) No allowance will be made on any premiums or payments exceeding one-sixth of the total income from all sources. The total income means the total income as estimated in accordance with the provisions of the Income Tax Acts

(7) On policies insuring a capital sum at death (whether in conjunction with any other benefit or not), the amount of the premium on each policy will for the purpose of calculating relief, be restricted to 7 per cent of the capital sum assured (excluding bonuses, etc.)

(8) Where no capital sum is assured at death the maximum allowance is tax at the appropriate rate on £100

The motives underlying the limitation of the amount of the payments ranking for relief will be evident. The relief is intended to encourage prudence and thrift, and not as a means of enabling wealthy persons to escape liability by making disproportionately large payments out of their incomes

INSURANCES EFFECTED UP TO THE 22ND JUNE, 1916

(1) Premiums paid on contracts for a deferred annuity on the life of the claimant or his wife are admissible

(2) Payments under a contract for a deferred annuity made with the National Debt Commissioners are admissible

(3) *Rate of Allowance* If the total income of the claimant—

Does not exceed £1,000	$\frac{1}{2}$ standard rate
Exceeds £1,000, but does not exceed £2,000	$\frac{3}{4}$ standard rate
Exceeds £2,000	full standard rate

on the amount of the premiums, or payments

(4) *Marginal Relief* Since the rate of relief changes at £1,000 and £2,000, an individual whose income is just under £1,000 (or £2,000) might have to pay more tax than if his income had just exceeded £1,000 (or £2,000), as the following illustration shows—

EXAMPLE 8

	£	s	d	£	s	d
A's total income (earned)	1,995	-	-	2,005	-	-
Tax at 4s	399	-	-	401	-	-
Deduct tax at standard rate on—						
Earned income allowance, £250 (max)						
Personal allowance, say, 225						
£475 @ 4s	95	-	-	95	-	-
Deduct tax at half-standard rate (max)	304	-	-	306	-	-
	22	10	-	22	10	-
Deduct allowance of tax for life assurance premiums £100—	281	10	-	283	10	-
(1) Tax at 3s	15	-	-			
(2) Tax at 4s				20	-	-
Tax payable	£266	10	-	£263	10	-

So that if A's income were £10 greater he would pay £3 less under the general rule (In the second case there is the question of Sur-tax, but this is not material to the present discussion)

In order to get over this anomaly a further relief is provided, calculated in the following way—

(1) Ascertain the amount of tax at $\frac{1}{4}$ standard rate on

the amount of the premiums In the case stated this will be is on £100 = £5

(2) Ascertain the tax at the standard rate on the amount by which the income falls short of £2,000 (or £1,000 as the case may be) In the present example the income falls short of £2,000 by £5 tax @ 4s thereon = £1

(3) Deduct (2) from (1) This gives the additional relief granted Therefore in the case given, where the total income is £1,995, we have—

Tax payable	£	s	d
	281	10	-
Deduct—			
½ standard rate on £100	£15		
Marginal relief as above	4		
		19	- -
Net tax payable		£262	10 -

INSURANCES EFFECTED AFTER THE 22ND JUNE, 1916

(1) The allowance of tax will be at half the standard rate in all cases, irrespective of the amount of the total income

(2) The insurance must secure a capital sum at death, whether in conjunction with any other benefit or not (But see exception under (4) below)

(3) No allowance will be given in respect of premiums payable during the period of deferment in respect of policies for deferred assurances (See, however, (4) below)

(4) Notwithstanding (2) and (3) above, contributions to an employees' superannuation or pensions scheme are admissible

EXAMPLE 9 A's total income is £1,200 earned He has a wife and two children, eligible He pays £20 a year for a deferred annuity for his wife under a contract dated January, 1916, and £10 under a similar contract dated January, 1917 He also pays £25 on a life policy for £1,500, dated 1915, and £26 on a £250 ten year with profits endowment policy maturing in 1931

	£	s	d	£	s	d
Tax at 4s on £1,200				240	-	-
Deduct tax at standard rate on—						
Earned income allowance	£200					
Personal allowance	225					
Children's allowances	110					
	£535	@ 4s	107	-	-	
Deduct allowance at half-standard rate	22	10	-			
				129	10	-
				£110	10	-
Allowance for life assurance premiums, etc —						
At $\frac{3}{4}$ rate—						
On deferred annuity	£20					
On £1,500 policy	25					
	£45	@ 3s	6	15	-	
At $\frac{1}{2}$ rate—						
On £250 policy relief limited						
to 7% of £250	£17/10/-	@ 2s	1	15	-	
				8	10	-
Net tax payable				£102	-	-

Marginal Relief—Persons Over 65.

EXAMPLE 10 We have now dealt with the allowances available and are in a position to deal with the case of marginal relief for elderly taxpayers. The figures given in the example should be read in conjunction with the paragraph under Earned Income Allowance.

Total unearned income £505

TAX PAYABLE IF NO MARGINAL RELIEF

	A (Single)			B (Married)		
	£	s	d	£	s	d
Tax at 4s on £505	101	-	-	101	-	-
Deduct tax at 4s on personal allowance	27	-	-	45	-	-
	74	-	-	56	-	-
Allowance at half rate (maximum)	22	10	-	22	10	-
Tax payable	£51	10	-	£33	10	-

MARGINAL RELIEF

Calculation of tax payable if income had not exceeded £500—

	<i>A</i> (Single)			<i>B</i> (Married)		
	£	s	d	£	s	d
Tax at 4s on £500	100	—	—	100	—	—
Deduct tax at standard rate on—						
Earned income allowance (£83 6s 8d)	16	13	4	16	13	4
Personal allowance <i>A</i> <i>B</i>	£83	6	8	£83	6	8
(£135 and £225)	27	—	—	45	—	—
	£56	6	8	£38	6	8
Deduct allowance at half-standard rate	22	10	—	19	3	4
	£33	16	8	£19	3	4

In respect of a total income of £505 the tax payable will be limited to £33 16s 8d (or £19 3s 4d) plus one half of the amount by which the total income exceeds £500, i.e. £2 10s. The liability is, therefore, reduced to £36 6s 8d and £21 13s 4d respectively.

General Notes on Allowances dealt with in this Chapter.

The individuals must be resident in the United Kingdom, but see note on residence in Chapter IX.

The allowances are not apportionable on a time basis. They must be claimed and allowed for a whole year. The following cases should be noted—

(a) Marriage during the year of assessment. The man claims £225 Personal Allowance for the whole year, and the woman £135 Personal Allowance against her own income up to the time of the marriage.

(b) Child born during the year of assessment. Allowance may be claimed for the whole year.

(c) Similarly, if the child attains the age of 16 years, or dies, during the year of assessment, allowance is for the whole year.

(d) Husband dies during the year of assessment. Personal allowance against his income up to the time of death £225. Widow claims £135 against liability on her income for the remainder of the year

The total income from all sources means the statutory income as computed in accordance with the provisions of the Income Tax Acts

CHAPTER III

ADMINISTRATION

IN the previous chapter we saw how the amount of the tax payable on a given income is calculated in individual cases. The succeeding chapters (IV to VIII) will be devoted to showing how the amount of the income upon which tax is charged, is determined. There is a definite routine to be followed, and in the first place, a few notes on the general scheme of administration, and the various classes of officials concerned will, perhaps, be useful.

The general principle underlying assessment is that the tax is assessed on the basis of a return made by the person to be assessed and charged with tax. Where tax is deducted at the source, the tax is assessed and charged upon the payer, and he is the person called upon to make the return. In other cases, as for example income from business, the return is made by the taxpayer himself. There are serious penalties for failure to make a return when called upon to do so, even if no tax is chargeable, and still more drastic penalties for making false returns.

All duties of income tax are under the care and management of the **Commissioners of Inland Revenue**. They are responsible for raising, collecting, receiving, and accounting for the tax.

The **General Commissioners** are persons of standing appointed for each district. They are responsible for settling the assessments under Schedules A, B, D, and E. Schedules of assessments are submitted to them, and if satisfied, they sign and allow them. For the purpose of making assessments under Schedule D, there are **Additional Commissioners** appointed by the General Commissioners.

Assessors are persons appointed to serve notices and forms, and to make assessments under Schedules A, B, and E. They also prepare lists of persons thought to be chargeable under Schedule D.

After the assessments have been made, the **collectors** are charged with the duty of getting in the tax from the taxpayers. These officials are not concerned with the fixing of the assessment, their duty is to enforce payment.

The **Special Commissioners** are a body paid by the Crown. They make assessments under Schedule D where the taxpayer elects to be assessed by them instead of by the General Commissioners. Business people may legitimately object to having to disclose their affairs to local commissioners, who may possibly be trade rivals. The Special Commissioners also make certain assessments under Schedule C, and they have important duties in connection with repayment claims and Surtax.

Inspectors of Taxes are appointed by the Treasury, and work under the direction of the Commissioners of Inland Revenue. They have power to review all assessments made. They represent the Crown in all local matters, and have great powers in enforcing the provisions of the law.

After an assessment is made, notice thereof is served upon the person chargeable. There is a right of appeal before the General or Special Commissioners as the case may be. Schedule D assessments can in most cases be settled with the Inspector, and it is a good plan to agree accounts with him before completing the return. On appeal the findings of the Commissioners on points of fact are final, but there is a right of appeal from the findings of the Commissioners on points of law, to the High Court. An appeal may be made by either the taxpayer or the Revenue Authorities.

There are, in addition to the foregoing, Commissioners appointed for certain limited purposes. Thus the Governor and Directors of the Bank of England and of the Bank of Ireland, and the National Debt Commissioners act as Commissioners for the making of assessments under Schedule C in respect of interest and dividends entrusted to them for payment.

CHAPTER IV

ASSESSMENTS UNDER SCHEDULES A, B, AND C

SCHEDULE A

THE nature of the income assessed to income tax under the provisions of Schedule A is an interest in property, land, and buildings, hence its popular description as the "landlord's tax." The main difficulty in understanding Schedule A seems to be that the assessments are very frequently at considerable variance with the actual income received in cash, and sometimes no rent at all is receivable, as in the case of the owner-occupier, where no money payment passes. Now the fundamental principle is that Schedule A assessments are fixed periodically, and are only reviewed as a whole when a general reassessment is determined upon by Act of Parliament, that is, every five or seven years. The basis of the assessment is the Annual Value of the property. There are, in the main, several distinctive features about income derived from property as compared with, say, income from a business or employment, and it may assist in making the matter a little clearer, if we touch upon them briefly.

A business is subject to influences liable to cause considerable fluctuations in the amount of the income derived from it from one year to the next. The composition of the profit is highly complex, it is necessary to set off a great variety of expenses against fluctuating items of receipt, in order to strike a balance which may be regarded as the profit (or loss) for a given period. In the case of an employment, the emoluments depend upon the personal services of the recipient, and the income is likely, therefore, to vary as frequently and to the same extent as the vicissitudes of life itself. On the other hand, there is something tangible, certain, and constant in the conception of property. Normally, the income from it will not vary violently from year to year, the composition of the

net income figure is not complex, on the one side there is rent, and on the other side of the account there is the upkeep expense which does not normally comprise a number of items of a widely differing nature. Of course, the "value" of property from the point of view of the income which can be derived from it, is not fixed once and for all, but the variations are more likely to be of a "long-period" order, from one year to the next the difference is not greatly marked.

Now the method of the income tax system may be expressed something after the following manner. We can say to the property owner that his property is worth so much a year to him, and we can fix this figure for several years at a time. He can get that figure from letting his property, because it is the market price. If he lets his property to a tenant for less than the property is worth, the tenant is gaining, and we shall not reduce our idea of the annual value merely on that account. The property is worth so much, and if the landlord is not getting it, then we must regard the tenant as a sort of owner-occupier for the difference. If the landlord subsequently lets his property for more than the annual value we have assigned to it, we shall have to see in due course what bearing this has on our original estimate. If the property is unoccupied for any period, we can make some special allowance to the landlord on proof of the facts. So much for the gross income derivable from property.

On the other side of the account there will be the expenses of maintenance, repairs, insurance, and management. These expenses will probably vary in proportion to the value of the property, and we can allow a lump sum deduction to cover these items. If the landlord has to spend more than we have allowed over a period of years, we will allow him some relief. If he spends less the gain is his, but we shall have gained something in reduced costs of administration, since the considerable expense and labour of reviewing the detail of expenditure in every case will have been avoided.

In order to ensure economical collection of the tax, we will

make the occupier liable for payment in the first instance, and give him the right to deduct the tax from his rent

The main features of tax under Schedule A will, then, be found to be concerned with—

- (1) The method of determining the annual value of property
- (2) Special reliefs in particular cases
- (3) Provisions for collection of the tax

Annual Value.

When a general re-valuation is to be made assessors are appointed for the purpose of assessing the tax under Schedule A. Forms are served upon the occupiers of every property, and a return is required setting out the terms under which the property is occupied. The assessor can call for the production of leases and agreements to confirm the particulars disclosed. As regards property, the annual value of which is under £10, the assessor can make his own estimate, without calling for a return. If the rent actually payable has been fixed on the footing that the tenant pays the rates and other expenses properly chargeable upon the occupier, while the landlord executes repairs and pays all expenses properly chargeable upon the landlord, the actual rent will be taken as the starting-point for further investigation. If, however, the lease or agreement provides for one party undertaking to discharge the liabilities of the other party, the rent will be adjusted by reference to those facts. Thus, if the landlord pays the rates, the amount of the rates will be *deducted* from the actual rent paid, and where the tenant is liable to execute repairs the estimated amount of such repairs will be *added* to the actual money paid as rent. This is done in order to bring all cases to some common level.

Annual value for the purposes of assessment is then determined as follows—

Two questions have to be answered. (a) Does the rent (as adjusted if necessary) represent the full rent of the property in question? (b) Has the agreement for that rent been

fixed within a period of seven years prior to the commencement of the year of assessment in which the valuation is made? If the answer to both these questions is in the affirmative, then the annual value of the property for the purposes of income tax will be the actual rent (as adjusted)

If the answer to *either* of the above questions is in the negative, then the annual value will be taken to be the rack-rent at which the property is *worth to be let by the year*. This rule covers, of course, the owner occupier, and cases of beneficial ownership

It will be seen that at the time the assessment is made, the actual rent payable is an important factor. But once the assessment has been fixed it cannot be altered until the next general re-valuation. There are, however, two exceptions to this—

(1) If during the period between two valuations, property is altered and improved, an increase in the assessment may be made

(2) If the owner can show that the annual value has decreased, he can appeal against the assessment for the current year

The annual value determined according to the foregoing scheme constitutes the gross Schedule A assessment. From this an allowance is made for repairs, etc., according to the following table—

(a) Assessments on lands, inclusive of the farmhouse and farm buildings—a deduction of one-eighth

(b) In the case of any house or building (except a farmhouse or building included with lands in an assessment) the deductions are on the following scale—

<i>Gross Assessment</i>	<i>Deduction</i>
Not exceeding £40	One-quarter of the assessment
Exceeding £40, but not exceeding £50	£10
Exceeding £50, but not exceeding £100	One-fifth of the assessment
Exceeding £100	£20 plus one-sixth of the excess over £100

EXAMPLE II A house is let at £52 a year, the landlord paying rates £12

Rent	£
	52
Deduct rates	12
	—
Annual value	40
Repairs allowance	10
	—
Net assessment	30
	==

In the administrative County of London the Valuation (Metropolis) Act, 1869, governs the determination of the assessments for income tax as well as for other purposes

In making assessments deductions from the annual value are allowed in respect of certain ecclesiastical dues, public local rates on tithe rent charge, drainage rates, etc., payable by the landlord

When the assessment has been made, a notice stating the amount thereof is served upon the person assessed. There is a right of appeal to the District Commissioners against any assessment, by any person interested

Special Reliefs and Allowances.

Since tax under Schedule A is dealt with on broad lines, in terms of annual value, and lump sum deductions, great injustice might be done if provision were not made for relief in special circumstances. The following are the principal types met with—

(1) If any house is unoccupied for the year or part of the year, the tax in respect of the period during which the house is unoccupied may be remitted upon appeal

(2) Where a loss has been sustained on growing crops or stock by reason of flood or tempest, and the landlord has, in consequence, agreed to a reduction of the rent, the assessment for the year will be proportionately reduced

(3) Where the cost of maintenance, repairs, insurance, and management according to the average of the five preceding

years has exceeded the deduction allowed for the purpose, a claim may be made for repayment of tax on the excess

Collection.

Tax under Schedule A is (except in the cases mentioned below) payable by the occupier. He is given power to deduct the amount of tax actually paid from the next payment on account of rent, but the landlord can require production of the collector's receipt for the tax. The right of deduction under the Income Tax Acts only extends to the *first* payment of rent after payment of tax. If a tenant omits to make a deduction from the next payment, the matter is one for agreement between the parties, or for the exercise of any other powers the tenant may possess.

Where the rent is less than the assessment the tenant can only deduct so much tax as is appropriate to the actual rent. The remainder of the tax he must bear himself as "beneficial owner."

In the case of property of annual value under £10 or let for a period less than a year, the assessment is on the landlord, and not on the occupier. And the landlord is also charged with tax in cases where a house or building is let out in apartments or tenements.

Schedule A tax is payable in one instalment on or before the 1st January in each year.

Income under this Schedule is generally "unearned," but where the property is attached to, or forms part of the emoluments of any office or employment (as in the case of clergymen, etc.), the income falls to be treated as earned, and the tax is payable in two instalments, on the 1st of January and the 1st July.

SCHEDULE B

Tax is charged under Schedule B in respect of the income arising from the *occupation* of lands, that is, income derived from the use of lands as distinct from the income derived from ownership. In the latter case income reaches the owner in

the form of rent—actual money payments if the property is let, or constructive rent if the owner is also occupier. Land may be occupied (1) for husbandry, (2) for woodland, (3) for nurseries or market gardens, and (4) for pleasure, as in the case of land attached to a residence, parklands, etc. The types of occupation have been numbered distinctively because the rules of assessment under Schedule B provide for special treatment of each class. Income from the occupation of land reaches the recipient in the form of the profits arising from agriculture, afforestation, horticulture, or as constructive income in the form of "amenity."

No tax is payable under this Schedule in respect of dwelling-houses (other than such as are included in a farm) or buildings occupied for the purpose of carrying on a trade or profession.

Lands Occupied for Husbandry.

The method of assessment under Schedule B is essentially a "rule of thumb" method. The statutory income in respect of lands occupied for the purposes of husbandry or as woodlands, is taken to be the annual value, that is, the gross Schedule A assessment, without any deduction for repairs, etc. It is only varied when reassessments are made for Schedule A purposes. It has been said that the farmer was not normally able, and could not be expected to keep accounts. In order to relieve him of the necessity of framing an estimate of his income (and the farmer is traditionally conservative in estimating his profits) the legislature has adopted the simple annual value basis. There are, however, important provisions for cases where the normal assessment under this rule bears hardly upon the taxpayer. Where the farmer is also owner of the lands he will be assessed under both Schedules A and B.

If the actual profits are in excess of the normal assessment no additional assessment can be made. But the taxpayer has a number of valuable reliefs open to him should the normal assessment prove excessive—

(1) If a person occupying lands for the purposes of husbandry shows to the satisfaction of the General Commissioners

that the profits or gains fall short of the assessable value, the assessment will be reduced accordingly, and his income will be taken to be the amount of the actual profits. The claim must be made within one year after the end of the year of assessment to which it relates.

(2) If he considers that he will benefit thereby, he can apply to be assessed according to the rules applicable to Schedule D as though he were carrying on a trade. Notice to exercise this option must be given within two months after the commencement of the year of assessment. In this way power to carry forward losses from year to year for six years may be obtained (See page 47 for further information as to the operation of this relief.)

(3) If a loss is sustained application may be made to have the amount of the loss set off against the statutory income for the year. Thus Loss £200, annual value of lands £300. The normal assessment under Schedule B will be £300, and assuming no other income, the aggregate statutory income for the year will be £300. The loss of £200 may be applied to reduce the assessment to £100, and if the tax has been paid on the normal assessment, repayment may be obtained of tax on £200. Notice of claim under this section must be given within one year after the end of the year of assessment to which it relates.

(4) Relief in respect of losses caused by flood or tempest may also be claimed in circumstances similar to those in which relief is given under Schedule A. The amount of the reduction in the rent governs the reduction in the assessment.

Woodlands.

The normal assessment is annual value. But where any person proves that he is managing the woodlands on a commercial basis with a view to the realization of profits, he may elect to be assessed under the rules of Schedule D as though he were carrying on a trade. It takes several years to realize the profits from woodlands, and if this provision were not made, the occupier would be called upon to pay tax on the

annual value every year even though there were no profit. On the other hand, when the profits are realized, the normal assessment could not be increased on the grounds of the excess of profit over and above the normal assessment. Whether the occupier of woodlands should exercise the option to be assessed according to the rules of Schedule D is a matter of judgment, depending upon the facts of the case, and the estimated position from year to year. But once made, the election remains operative for all future years so long as the woodlands remain in the same occupation.

Nurseries and Market Gardens.

These are not assessed on annual value, but according to the rules of Schedule D without any option. The Tax is, however, charged under Schedule B.

Other Lands.

Other lands than those occupied for the purposes of husbandry, woodlands, or nurseries and market gardens are assessed at one-third of the annual value.

Cattle and Milk Dealers.

Cattle dealers and milk dealers occupying lands are assessed under Schedule B on annual value, but if the Commissioners find that the lands so occupied are insufficient for the keep of the cattle brought on to the lands, and that the assessable value affords no just estimate of the profits, they may require a statement of profits to be delivered. In these circumstances a further sum may be charged which, together with the charge under Schedule B, makes up the sum that would be charged if the profits were assessed according to the rules of Case III of Schedule D (see Chapter VII).

SCHEDULE C

This schedule is concerned solely with dividends, interest, and annuities payable out of any public revenue. It is a

special case of deduction at source The persons or bodies of persons entrusted with the payment of the dividends, etc , are required to deliver to the appropriate Commissioners a true account of the payments to be made The tax is then assessed upon those agents, and has to be paid (out of the moneys coming into their hands) into the Bank of England for the credit of the Commissioners of Inland Revenue

The dividends, etc , consequently reach the recipient after deduction of tax There are, however, exceptions Where the half-yearly amount of the dividend payable to any person does not exceed fifty shillings, no tax is charged under this Schedule. Dividends on certain securities issued in connection with the war are also paid in full These provisions are made in the interest of small investors who may not be liable to tax at the full rate, and who would consequently be forced to claim repayment, in order to secure individual allowances But the dividends so paid in full do not escape taxation if the person receiving them is liable to tax Such sums must be returned for assessment under Case III of Schedule D.

CHAPTER V

SCHEDULE D TRADES, PROFESSIONS AND VOCATIONS

SCHEDULE D is very wide, covering a variety of forms of income. It is subdivided into six cases, the first two of which only will be dealt with in this chapter and Chapter VI.

CASE I Tax under Case I of Schedule D is charged in respect of trades carried on in the United Kingdom by any person whether resident or non-resident in the United Kingdom.

CASE II Tax under Case II is charged in respect of professions and vocations. The rules are substantially the same as in the case of trades, and the references to trades in the following pages may be construed as including professions and vocations unless attention is drawn to specific exceptions.

A little reflection will show that in arriving at the amount of the profits of a business there is considerable scope for variation of opinion. A cautious man will make every conceivable reservation against his profits before he arrives at what he considers to be his true income. A less cautious man may take the view that some of the charges so made can properly be ignored. Again, a profit and loss account prepared with a view to the sale of the business itself, may be open to criticism on the ground that charges have been omitted which ought to have been included, or income may have been included which is not income arising from carrying on the business, as, for example, profits on the sale of investments. On the other hand, that same person, quite without any fraudulent intent, may contend for the purpose of taxation, that his real profits are considerably less than those shown in an account prepared with a different purpose in view. Even professional accountants are not unanimous on every point. Hence, if taxation of trades is to be at all effective, it is essential that the profits should be estimated in accordance with some specified standard. The standard laid down by the Acts may, or may not,

be too severe. We are only concerned here to ascertain what that standard is, since the tax is charged on profits as estimated in accordance with the Acts

Normal Assessment.

The normal assessment under Cases I and II of Schedule D is on the profits for the year preceding the year of assessment. For 1929-30 the assessment will be on the profits of the year 1928-29. The income tax year ends on the 5th April, and as scarcely anybody makes up annual accounts to that date the profits of the accounting period ending within the preceding year are taken as the profits of the preceding income tax year. Thus, if the annual accounts are made up to the 30th April, 1928, or the 31st December, 1928, or the 31st March, 1929, in fact, to any date between the 6th of April, 1928, and the 5th of April, 1929, the profits for the period covered by the accounts will be taken to be the profits for the preceding income tax year, and will form the basis of the assessment for 1929-30. In the case of a continuing business in the same proprietorship the "preceding year" rule will always apply, and the assessment will not be reduced merely because the profits of the year of assessment are less than the profits of the preceding year. On the other hand, the assessment cannot be increased on the grounds that the profits for the year of assessment are greater than the profits of the preceding year. If the business is a continuing one it follows that the whole of the profits will come into charge to tax over a period of years. Special provisions are made for the first years of a new business, and for the last years of a discontinued business.

New Businesses.

For the year of assessment during which the business was set up, the assessment will be on the actual profits for the year of assessment.

EXAMPLE 12 A business is set up on the sixth of July, 1928, and the profits for the year ended 5th July, 1929, are £1,200. The actual profit for the year 1928-29 (that is, the year of

assessment in which the business was first set up) may be taken to be £900, that is the profits for the first nine months of the business at an average rate of £100 per month. The assessment for 1928-29 will be on £900.

For the year of assessment following that in which the business was first set up, the assessment will be on the profits for one year from the date of commencement. In the example given above, the assessment for 1929-30 will be on £1,200, namely, the amount of the profits for the first twelve months of the business.

For the next and subsequent years the normal assessment will apply. In the above example, the assessment for 1930-31 will be on the profits for the preceding year, i.e. £1,200.

EXAMPLE Business commenced 1st January, 1929

Profit for year to 31st December, 1929	£ 800
" " 31st December, 1930	600
" " 31st December, 1931	1,200

Assessments in the ordinary way will be—

1928-29	£ 200	($\frac{1}{4}$ of £800)	
1929-30	800	Profits for first year of business	
1930-31	800	Profits of preceding year	
1931-32	600	"	"
1932-33	1,200	"	"

The foregoing example illustrates the working of the rule, and it will be seen that the first annual accounts determine the assessments for three years. There is, however, an important provision to enable the taxpayer to secure relief, if his profits for the second year of assessment are less than the amount on which he would be taxed under the above rules. The taxpayer can claim to have his assessment reduced to the amount of the actual profits. What are the actual profits for the year 1929-30 in the example above? To determine this involves splitting accounts. We may say that for the period April to December, 1929, the profits are $\frac{3}{4}$ ths of £800 (i.e. £600), and for the remainder of the income tax year to April, 1930, $\frac{1}{4}$ of £600 (i.e. £150), total for year £750. In these

circumstances the taxpayer may apply to have his assessment for 1929-30 reduced to £750. Notice of claim must be given within one year after the end of the year of assessment, in the present case before 6th April, 1931. The assessments for the several years will then be—

1928-29	£ 200
1929-30	750
1930-31	800
1931-32	600
1932-33	1,200

Business Discontinued.

When a business is discontinued the normal assessment for the year in which it is discontinued is again departed from, and the profits assessed to tax will be the actual profits for the period from the 6th of April to the date of discontinuance. The Revenue Authorities have also the right to review the assessment for the preceding year, and if the actual profits for that year are greater than the assessment, they can raise an additional assessment for that year. The taxpayer has no corresponding option if the actual profits are less than the assessment.

EXAMPLE Business discontinued on 30th June, 1930

Profits for year to 31st December, 1927	£ 1,800
" " 31st December, 1928	2,000
" " 31st December, 1929	2,400
Profits for period (6 months) to 30th June, 1930	800

In view of the discontinuance the assessment for 1930-31 must be adjusted to the actual profits, which may be taken in this case to be £400, i.e. one half of £800, and £400 will be substituted for the normal assessment of £2,400, which was the profit of the preceding year. The taxpayer cannot reopen the assessment for 1929-30, but the Revenue Authorities may do so. Apportioning the profits, we have for the nine months to 31/12/29, £1,800 (i.e. $\frac{3}{4}$ of £2,400), and for the three months to the end of the year one half of £800, or £400, total £2,200. The normal assessment for 1929-30 will have been £2,000, so

that an additional assessment in respect of the sum of £200 may be expected

The question of treatment of a business on the basis of commencement and discontinuance also arises when a business changes hands, see later, page 52

Apportionment of Accounts.

Where it is necessary to apportion accounts the apportionment is on a time basis, by reference to months or fractions of a month. In the foregoing examples the fraction of the month of April has been ignored, and in practice this is often sufficient, but if the amounts involved are considerable, the odd days should be taken into account

Assessments.

We now come to the important matter of estimating profits according to the provisions of the Income Tax Acts

A trader cannot be compelled to produce his accounts to the Inspector, but he can be required to furnish such particulars as the Commissioners may call for in connection with appeal proceedings. The Inspector has access to any statements so furnished, so that there is not usually much to be gained by withholding the accounts from the Inspector. If the trader has not kept proper accounts it is clear that his prospects of success on appeal made by him will not be good. If proper accounts are kept, as they should be, for other purposes as well as for income tax assessments, it is a wise proceeding to agree them with the Inspector before completing the return form, in the case of businesses of any size this is almost invariably done

Accounts kept on normal lines for ordinary business purposes will require careful scrutiny, and adjustment, before the statutory profit is ascertained. Particulars of the deductions which are allowed and those which are inadmissible, are set out below, together with an example of a Trading and Profit and Loss Account prepared in the ordinary way, and the adjustments necessary to bring out the statutory profit

DEDUCTIONS NOT ALLOWED

(1) Disbursements and expenses not being money wholly and exclusively laid out for the purpose of the trade

This test should be applied to all items not specifically mentioned in the following pages. There are many arguable cases, and many decisions have been given on particular cases by the Courts. It is necessary to examine the facts. For example, subscriptions to hospitals are not allowed in the usual way, but where the hospital is one at which the employees in the trade receive medical and surgical treatment it is settled practice to allow the employers' contributions. A professional accountant's fees for annual audit will be allowed, but if charges are incurred in getting out accounts for past periods for income tax purposes, such charges are not allowed as deductions in the accounts.

(2) Disbursements for maintenance of the persons assessable, their families, and establishments. Such items are regarded as income spent, and not as expenses incurred in earning the profits.

(3) Sums expended for domestic or private purposes distinct from the purposes of the trade. E.g. the gas account for lighting a house and shop is rendered in one sum. An equitable apportionment must be made so as to exclude that portion of the expense attributable to domestic purposes.

(4) Losses not connected with the trade, e.g. losses on speculations apart from the business.

(5) Capital withdrawn from, or sums employed or intended to be employed as capital in, the business.

(6) Capital employed in improvement of business premises.

(7) Interest on capital which might have been earned if the capital had been laid out at interest.

(8) Annual interest, annuities, patent royalties, or other annual payments paid out of the profits or gains. The trader should pay these sums less tax.

(9) Depreciation of capital assets, but an allowance is made for wear and tear of plant and machinery (see page 42).

(10) Sums recoverable under an insurance or contract of

indemnity, e.g. a loss by embezzlement is allowed, but not if the loss is recoverable under a fidelity bond or guarantee

(11) Sums paid as income tax These payments are regarded as appropriations of profit, and not as expenses incurred in earning the profit

DEDUCTIONS ALLOWED

(1) Expenses and disbursements wholly laid out or expended for the purpose of the trade

(2) The rent or net Schedule A assessment of the premises occupied for the purposes of trade In respect of mills, factories,

EXAMPLE 13—

TRADING AND PROFIT AND LOSS ACCOUNT			
<i>for Year ended 30th October, 1928</i>			
<i>Dr</i>			<i>Cr</i>
To Stock in hand (1/11/27)	£ 1,800	By Sales	£ 17,220
„ Purchases	12,200	„ Stock in hand (30/10/28)	1,500
„ Wages	400		
„ Patent Royalties	120		
„ Gross Profit c/d	4,200		
	<u>£18,720</u>		<u>£18,720</u>
To Cash Discounts allowed	50	By Gross Profit b/d	4,200
„ Salaries	1,500	„ Dividends on Investments	90
„ Office Expenses	320		
„ Advertising	190		
„ Rates	100		
„ Income Tax	84		
„ Commission	96		
„ Lighting and Heating	116		
„ Repairs to Premises	46		
„ Bad Debts	124		
„ Reserve for Bad and Doubtful Debts	196		
„ Depreciation—			
Buildings	£ 50		
Plant and Machinery	126		
	<u>176</u>		
„ Bank Charges	15		
„ Interest on Loan	60		
„ „ Capital	250		
„ Balance—Net Profit	967		
	<u>£4,290</u>		<u>£4,290</u>

and similar premises the deduction is the *gross* Schedule A assessment

(3) A proportion of the rent or net Schedule A assessment, in the case of buildings partly used as dwelling-houses. The maximum deduction is normally $\frac{2}{3}$ rd, but this may be increased if the Commissioners are of opinion that a greater sum ought to be allowed in any particular case

(4) Repairs to business premises, and sums expended for the supply, repairs, and alterations to any implements, utensils, or other articles employed for the purpose of the trade

(5) Bad debts actually incurred, and doubtful debts in so far as they are estimated to be bad. Where there is good reason to anticipate loss on specific debts, as in bankruptcy cases, the amount expected to be recovered from the debtor will be taken to be the value of the debt, and the balance may be treated as bad. A percentage of book debts reserved for possible losses through bad debts is not admissible save in very exceptional circumstances

A specimen Trading and Profit and Loss Account appears on page 40. It is necessary to examine every item in the accounts to see whether it may be allowed to stand for income tax purposes. The items calling for comment are—

Patent Royalties These are not allowed as a deduction, the trader having the right to deduct tax on making the payments

Advertising Normal expenditure on advertising may be deducted, but abnormal expenditure, as in the case of a new business, or expenditure on permanent forms of advertisement, e.g. a hoarding, will be treated as capital expenditure

Repairs to Premises If these are *bona fide* repairs they will be allowed, if the item includes anything in the nature of *improvement* such part will be disallowed

Bad Debts If proved to be bad, and actually written off, this item may pass

Doubtful Debts If this reserve does not include specific debts estimated to be bad, the amount should be added back

Depreciation is not allowed, but an allowance may be claimed for wear and tear of plant (See page 42)

Interest on Loan The trader is entitled to deduct tax on paying the interest, this must be added back

Interest on Capital Not allowed The object of making a charge of this nature in the profit and loss account is to bring out the amount of the profits after taking into consideration the amount which might reasonably be expected to be earned by the capital if invested elsewhere

On the other side of the account there are dividends taxed at source These should be excluded, since, if left in, they would be subject to double taxation

Having scrutinized the accounts, it remains to inquire whether there are any deductions admissible but not included in the accounts In the present case we will assume that the trader owns the business premises, and is, therefore, entitled to deduct the net Schedule A assessment, say £230

ADJUSTMENT OF ACCOUNTS

Net profit as per accounts		£
		967
<i>Add items not allowed—</i>		
Patent royalties	£120	
Income tax	84	
Bad debts reserve	196	
Depreciation	176	
Interest on loan	60	
„ on capital	250	
		886
		<hr/>
		1,853
<i>Deduct—</i>		
Dividends taxed at source	90	
Schedule A assessment—net	230	
		320
		<hr/>
Profits as adjusted		£1,533
		<hr/>

Wear and Tear Allowance.

It has been stated that depreciation as such is not allowed, but that an allowance for wear and tear of any plant and machinery used in the business may be claimed The amount of the allowance is in the discretion of the Additional Commissioners, there being no specific amount fixed by statute

In making a claim for an allowance the amount to be claimed is the amount for the current income tax year, and not for the period covered by the accounts. The total of the deductions for wear and tear over a period of years must not exceed the first cost of the plant and machinery. For most types of plant, rates of allowance have been agreed with the authorities by the trade associations and industries concerned, and the form of the allowance is usually a percentage of the value as written down by successive allowances. Additions to plant made during the year are usually ignored in calculating the allowance, it being argued that diminished value by reason of wear and tear cannot be said to have set in until the plant has been running a full year.

In the example worked out above, assume that the allowance for wear and tear claimed for the year 1929-30 is £70. In completing his return, the taxpayer will show the amount of the profits as adjusted, viz, £1,533, and enter the amount claimed for wear and tear separately. If the claim for wear and tear is allowed tax will be charged upon £1,533 less £70, i.e. £1,463.

If a loss is sustained, or if the statutory profits are less than the amount of the wear and tear allowance, the whole of the allowance, or balance as the case may be, may be carried forward and added to the deduction for subsequent years until it is absorbed.

EXAMPLE 14. Wear and tear allowance for three years 1928-29, 1929-30, and 1930-31 agreed at £1,200, £1,100, and £1,400 respectively. The accounts as adjusted show—

Year to 31st December, 1927—Profit	£ 800
„ 31st December, 1928—Loss	1,300
„ 31st December, 1929—Profit	5,000

The assessments will be—

Year to 31st December, 1927—Profit	£ 800
Wear and tear	1,200
1928-29—Assessment	<hr/> NIL <hr/>

Carry forward £400 to next year

Year to 31st December, 1928—Loss . £ 1,300

Assessment 1929-30 NIL

Carry forward £1,500 to next year

Year to 31st December, 1929—Profit £ 5,000

Less loss brought forward 1,300

Less wear and tear £ 3,700
2,900

Assessment 1930-31 £ 800

(See page 47
as to treat-
ment of
losses)

Obsolescence.

If it is necessary to replace any plant or machinery which has become obsolete, the cost of the original plant, less (a) the total deductions for wear and tear allowed in respect of it, and (b) any amount realized by the sale of the old plant, will be allowed as a charge in the profit and loss account, as a deduction in arriving at the amount of the profits

EXAMPLE 15 A machine, costing originally £1,000, is replaced after some years by a new machine costing £1,500. The total allowances for wear and tear amount to £250, and the old machine is sold as second-hand for £200

Original cost	£	1,000
Deduct—		
Wear and tear allowances	£250	
Sum realized by sale	200	
	<u>450</u>	
Cost of replacement allowed as a deduction . . .	£550	

It is important to note that—

(1) The charge for obsolescence can only be admitted if the plant and machinery is actually replaced; and

(2) The allowance will not exceed the cost of replacement. Thus, if the new machine in the example had cost £500 only, the allowance would be limited to that figure

Losses.

The normal assessment is made as for the income tax year, and is based upon the results of one complete year. So long as those results show a profit, fluctuations in the amount thereof do not affect assessments already made. If a trader makes £100 only this year as against an assessment of £1,000 determined in relation to the profits of the preceding year, he has no remedy at hand to reduce his present liability. He will only get relief next year, when his assessment will be in the sum of £100, whatever his profits for that year may be.

Now the transactions of business are in the ordinary way continuous, and are not confined to specific periods. Although an accounting system is the only available instrument for taking measurements it reveals no more than it professes to reveal. It is perfectly possible for a Profit and Loss Account to show a profit, and yet for the firm to be heading straight for bankruptcy at the date to which the accounts are made up. Abnormal profits during the first few months obscure the losses of the latter part of the period. Moreover, commitments may have been entered into which are not yet capable of reduction to entries in the books, and whose full effects for good or ill will not be felt for some considerable time. Influences outside the accounts are at work making for success or otherwise. In due time these factors will be reflected in the accounts, of course, and meanwhile we are justified in treating each separate year as a unit for the purposes of taxation, although relief in respect of reduced profits is postponed, and is not available at the time when perhaps it is most welcome. After all it is profits which are sought to be taxed, and the income-tax system merely takes the trader's own accounts (after adjustment) as an index of those profits. And so long as profits continue to be made, unevenness in the tax charge from year to year will, in a rough and ready way, be smoothed out over a sufficiently long period.

And yet the system does take into consideration the fact

that profit and loss is not merely a matter of accounting periods, that the transactions of business yield both profits and losses, and that by reason of the incidence of those losses, a net loss may be revealed in an annual account. It would indeed be a harsh system which raised assessments of, say, £1,000, nil, and £700 following on years in which the trading results as shown by the accounts were profit £1,000, loss £2,000, profit £700 respectively, claiming that profits alone are its concern, that each individual year must be treated on its merits, and that losses allocated to particular periods have no effect upon liability to tax beyond the period in which they are incurred.

There are several alternatives open to the trader who makes a loss during the year of assessment.

1 RELIEF UNDER SECTION 34 OF THE INCOME TAX ACT, 1918. If a trader shows that he has made a loss during the year of assessment (usually taken to mean a loss during the accounting period ending within the year of assessment), he may claim to have the loss set against his statutory income for that year, and to have repaid to him tax on so much of that income as is represented by the loss. The claim must be made within one year after the end of the year of assessment to which it relates.

EXAMPLE 16. A trader's accounts as adjusted show—

For year to 31st December, 1928—Profit	£ 1,500
„ 31st December, 1929—Loss	400

The assessment for 1929–30 will be £1,500, and he will have to pay tax in respect of that assessment in two instalments, on the 1st January, 1930, and 1st July, 1930. He will have up to the 5th April, 1931, in which to claim to have the loss of £400 adjusted by reference to his statutory income for 1929–30, viz., £1,500 (assuming that he has no other income). If he has already paid tax at the date of making his claim he will be entitled to repayment of tax on £400.

The assessment for 1930–31 will be nil.

RELIEF UNDER NO. 13 OF THE RULES APPLICABLE TO CASES 1 AND 2, SCHEDULE D. A person who carries on two or more

distinct *trades* may set off a loss in one of them against the profits of another trade

Business 1—Profit	£600
„ 2—Loss	200

If no claim is made under this Rule the assessments for the following year would be—

Business 1	£600
„ 2	<i>nil</i>

If advantage is taken of this provision the assessment for the following year would be £400

This relief applies only to trades

RELIEF UNDER SECTION 33 OF FINANCE ACT, 1926 This is a recent provision enabling a loss to be carried forward against the profits on which assessments are made for the six following years of assessment

EXAMPLE 17

Year 1928—Loss	£ 400
„ 1929— „	100
„ 1930—Profit	300
„ 1931— „	1,000

The losses in 1928 and 1929 may be carried forward to 1930, reducing the profits to *nil*, and leaving a balance of £200 to carry over to 1931, thus reducing the assessment for 1932–33 to £800

The losses must be applied to each succeeding year in turn, the taxpayer having no option as to which year he shall select for utilizing the loss. In the above example, by reason of the operation of individual allowances it would obviously suit the taxpayer to carry the £500 loss over to 1931, but this he cannot do

There is another point to be noticed. In view of the fact that the assessments are on the profits of the preceding year, there are only *five* effective years in which to utilize the loss. In the example the sixth year of assessment following the loss in 1928 is 1934–35, and the assessment for that year will be on the profits of 1933

These reliefs for losses are *alternative*, but any balance of loss on which relief has not been given under Section 34 of the Income Tax Act, 1918, or under Rule 13, may be carried forward to subsequent years under Section 33 of the Finance Act, 1926

CHAPTER VI

SCHEDULE D PARTNERSHIPS AND COMPANIES

CONTINUING our consideration of Schedule D, we must now deal with the important matters concerned with income tax in the cases of partnerships and companies

Partnerships.

The adjustment of accounts for the purpose of assessment follows the same lines in the case of a partnership, as in the case of a single trader. But the law requires the assessment to be made on the *firm*, and this requirement raises special problems

The return of profits is to be made by the precedent partner. Individual partners may claim the reliefs and allowances to which they are entitled in respect of their share of the partnership profits. The tax payable is calculated on the basis of the liability of the individual partners, and is payable by the firm.

The result of this provision is that the Crown stands in a more favourable position to recover the tax in case of default and on winding-up of the partnership.

The following example of a simple straightforward case will illustrate the principle—

EXAMPLE 18. A B and C D are partners in a trade sharing profits as to $\frac{2}{3}$ rd and $\frac{1}{3}$ rd respectively. The profits as adjusted for the year ended 31/12/1928 amount to £990. A B is married, C D is single. Neither is entitled to any other allowances, there is no other income.

The assessment for 1929-30 will be £990, and the amount of tax payable by the firm will be calculated, as shown on page 50.

A B's liability is £42 10s, and C D's £14. The tax amounting to £56 10s is charged upon, and is payable by, the firm.

Tax on £990 at 4s		£198	
	<i>A B's Share</i>		<i>C D's Share</i>
Tax on share of assessment	£660 @ 4s 132	—	£330 @ 4s 66
<i>Deduct tax at 4s on allowances—</i>			
Earned income allowance	£110		£ 55
Personal allowance	£225		£135
	<u>£335 @ 4s 67</u>		<u>£190 @ 4s 38</u>
	£65		£28
Deduct relief at half rate	Maximum 22 10		One-half 14
	<u>£42 10</u>		<u>£14</u>

If either or both of the partners had other income, it would be necessary to restrict the amount of the allowances to the amount not utilized against assessments made on income from other sources. Thus, if C D had other earned income amounting to £1,200 from the tax on which an allowance for earned income of tax on £200 had been made, the relief in respect of the partnership income must be restricted to £50, and the calculation proceed accordingly. So also for any other allowances made in other assessments outside the partnership.

Interest on capital and salaries to partners are items frequently met with in partnership accounts. They should be regarded as devices for compensating the partners for disproportionate services before arriving at the amount which is to be shared in the agreed proportion. If of two persons in active partnership, one does most of the work while the other provides most of the capital, it is convenient to adjust these matters by allowing one partner a salary and the other interest on capital. But it must not be forgotten that the salary and interest are really part of the scheme for the equitable division of the profits, and that, therefore, the individual partners' shares will include sums so charged to the profit and loss account.

EXAMPLE 19 Assuming that in the previous example the £990 statutory profit were made up as follows—

Net profit per Profit and Loss Account	£450 ⁶
Add back items not allowed—	
Interest on capital—A B	£240
—C D	60
" "	—
Salary—C D	300
	240
	<u>£990</u>

the shares of the partners must be taken to be—

A B	£	C D	£
Two-thirds of £450	300	One-third of £450	150
Interest .	240	Interest	60
		Salary	240
	<u>£540</u>		<u>£450</u>

These figures, £540 and £450, represent the shares of the statutory income for the purpose of calculating net liability

Notwithstanding its name, interest on capital is "earned" income in the case of partners actively engaged in the business. Where one of the partners is a sleeping partner the whole of his share falls to be treated as "unearned."

The profits of the preceding year form the statutory income of the year of assessment, and it is this statutory income which has to be shared among the partners. The basis of division is, however, the shares to which the partners are entitled during the year of assessment. Thus, in the example on page 49, if after 31/12/1928 Messrs A B and C D decided to share equally, the liability to tax for 1929-30 would be calculated on the footing that each partner's income for that year was £495.

New Partnerships.

If a person who was engaged in a trade, profession, or vocation on his own account, enters into partnership with one or more persons, the change in proprietorship does not affect the basis of assessment, and the "preceding year" rule will continue to apply. But if all the partners desire it, the business may be treated as being newly set up at the date of the change, in which case the provisions for the assessment of new

businesses will apply. The person originally carrying on the business on his own account will be treated as having discontinued the business at the date of the change, and will be assessed under the provisions relating to discontinued businesses. Notice to be assessed on the basis of commencement and discontinuance must be given within three months of the date of the change, and must be signed by all the parties interested.

The same option to treat the business as newly set up exists in the case of a change in a partnership (one or more of the original partners remaining) by reason of the retirement, death, or dissolution as regards one or more partners, or by reason of the admission of a new partner. If the option is not exercised, the assessments are based on the preceding year's profits throughout.

Where there is a succession to a business in such circumstances that none of the persons originally engaged in carrying on the trade continues in it, the assessments will always be fixed on the footing of discontinuance of an old business, and the commencement of a new one at the date of change.

Companies.

The accounts of a limited company require adjustment in the same way as those of a sole trader, the items allowed and not allowed being the same in either case.

There are, however, one or two special points in connection with companies arising out of their nature. A body corporate is taxed at the full standard rate on the whole of its profits whether distributed to the shareholders or not. In paying dividends, a company is required to furnish a statement with the dividend warrant showing—

- (1) the gross amount which, after deduction of tax appropriate thereto, corresponds to the net amount actually paid, and
- (2) the rate and amount of income tax appropriate to such gross amount, and
- (3) the net amount actually paid

The income thus reaches the shareholder already taxed at the full standard rate, and it does not matter whether the dividend is declared in the form of "less tax" or "free of tax". A 10 per cent dividend "less tax" is the same thing as an 8 per cent dividend "free of tax" (taking income tax at 4s in the pound). The shareholder should, therefore, regard his income from dividends taxed at source as the gross amount shown in the dividend warrant advice. As in other cases of taxation at source, claims for repayment of tax often arise.

EXAMPLE 20 Earned income £330 Allowances for wife and one child Dividends received 8 per cent "tax free" on 300 £1 shares

The dividend warrant will be for £24, and this sum must be regarded as already taxed at the same rate as the company has been taxed (normally the full standard rate). The gross dividend must be taken to be £30.

Earned income	£330	
Dividends	30	
	<hr/>	
Total	£360	
	<hr/>	
Tax at 4s on £360		£72
Deduct tax at 4s on—		
Earned income allowance	£ 55	
Personal allowance	225	
Child's allowance	60	
	<hr/>	
	£340 @ 4s	68
		<hr/>
Deduct one-half		£4
		2
		<hr/>
Net tax payable		£2
		<hr/>

Since £6 has been paid by deduction from the dividends, repayment of £4 should be claimed.

The rate of deduction from dividends is not invariably the standard rate, since the company may be entitled to Dominion Income Tax Relief on part of its income. (See Chapter XI.)

CHAPTER VII

SCHEDULE D INVESTMENT INCOME AND CASUAL PROFITS

INVESTMENT INCOME (SCHEDULE D, CASES III, IV, AND V)

WE have seen that under Schedule A income arising from property is normally taxed at source, and that a large and important class of investments falls within the purview of Schedule C. Also that dividends of companies are taxed before receipt by the shareholder, and that tax on annual interest, etc., is charged upon the payer. Nevertheless there remain certain classes of investment income which are not taxed before payment. There are three main reasons for this—

(a) That there are specific exceptions to the assessment of tax under Schedule C

(b) That it is the practice of banks and co-operative societies to credit interest to their customers and depositors in full, and that this practice has secured recognition by the authorities

(c) That certain income from securities and possessions abroad cannot be taxed in the hands of the payer of the income under other provisions of the Income Tax Acts

Case III of Schedule D covers the income included under headings (a) and (b) above. The types of such income mentioned below are taken from the notes issued by the authorities in connection with the completion of returns—

(i) Interest on bank accounts or deposits, including savings, bank interest

(ii) Interest from co-operative societies on loans, deposits, or share capital (but not dividends on purchases)

(iii) Dividends or interest of any amount on 5 per cent War Loan Stock, or 5 per cent National War Bonds registered or inscribed at the Bank of England or the Bank of Ireland—except where application has been made to the Bank to deduct tax—or held on the books of the Post Office

(iv) Dividends or interest of any amount derived from Post Office issues of Funding Loan Stock, registered Victory Bonds, 5-15 year Treasury Bonds, 1925-35, $3\frac{1}{2}$ per cent Conversion Loan, $5\frac{1}{2}$ per cent, 5 per cent, and $4\frac{1}{2}$ per cent Treasury Bonds (except Bearer Bonds), and $4\frac{1}{2}$ per cent Conversion Loan

(v) Dividends not exceeding £5 per annum from Government or Corporation securities inscribed at the Bank of England or the Bank of Ireland, interest on registered Local (Housing) Bonds, where the aggregate holding does not exceed £100

(vi) All dividends from stocks purchased and held through any Savings Bank, dividends on $4\frac{1}{2}$ per cent War Loan Stock registered at the Post Office, where the holding does not exceed £200

Case IV of Schedule D covers the assessment of income arising from *securities* out of the United Kingdom, e.g. foreign mortgages, debentures and loans. The whole of the income arising from Dominion and Foreign securities is assessed, whether received in the United Kingdom or not.

Case V of Schedule D deals with the assessment of income arising from *possessions* out of the United Kingdom. Possessions are distinguished for the purpose of assessment, thus—

(a) Stocks, shares, and rents. The whole of the income arising from these possessions abroad is assessable, whether received in the United Kingdom or not, and

(b) Other possessions (e.g. income from business controlled abroad). The assessment is in respect of the income received in the United Kingdom.

Rules of Assessment Applicable to Cases III, IV, and V.

The normal assessment is on the actual income of the preceding year.

Expenses of collection of the income from abroad, including foreign taxes (except where Dominion income tax relief is appropriate) are allowed as deductions, interest or other

annual sums paid to a person non-resident in the United Kingdom out of income not received in this country, are also allowed as deductions

Persons who prove that they are not domiciled in the United Kingdom are assessable under Case IV on the sums receivable in this country during the year of assessment, and under Case V on the sums receivable in this country on the preceding year basis. Similar provisions apply to British subjects not ordinarily resident in the United Kingdom

New Sources.

(1) For the year in which the income first arises, the assessment is on the actual income of that year

(2) (a) If the income first arose on the 6th April in the first year the assessment for the second year will be on the income of the preceding year

(b) If the income arose after the 6th April in the first year the assessment for the second year will be on the actual income of the second year

(3) For the third and subsequent years, the assessment is on the income of the preceding year

For the first year in which the "preceding year" rule applies under the above provisions, the taxpayer has the option to have the assessment reduced to actual income of the year of assessment

An addition to an existing source falls to be treated on the same lines as a new source

Cessation.

When a person ceases to possess any particular source of income (or any part of such source) the discontinuance (or partial discontinuance) is treated in the same way as the discontinuance of a trade, i.e. the actual income of the year of assessment from the 6th April to the date of cessation is the basis of the assessment for that year, with an option on the part of the authorities to raise the assessment for the preceding year

So long as the *source* of the income is retained tax is charged in respect of an assessment under the "preceding year" rule, whether or no there is any income from the securities or possessions during the year of assessment

CASUAL PROFITS (CASE VI OF SCHEDULE D)

This is often referred to as the "sweeping clause," since it provides for the assessment of any annual profits or gains not falling under the other Schedules or Cases

A recent legal decision interpreted "annual profits or gains" as meaning "profits or gains relating to the year," and not as being something necessarily of a recurring nature. It is difficult to give any formula for determining whether a casual profit is assessable under this Case. But it will be difficult to resist an assessment if the profit is a result of a transaction entered into with a view of profit. Underwriting profits are included, but not such profits as arise from appreciation of capital, e.g. sale of a house not bought with a view to resale, and profits on the sale of investments where the buying and selling of investments does not constitute a trade.

The assessment is on the amount of the profits or gains arising in the year of assessment or as the case may require, e.g. if an account has to be taken the profits may be apportionable to more than one year.

If a transaction is one which comes within the scope of Case VI, but a loss is incurred instead of a profit, the taxpayer may (1) set the loss against other profits assessable under Case VI, and so far as this does not give relief (2) carry forward the loss for six years against future Case VI assessments.

CHAPTER VIII

SCHEDULE E

SCHEDULE E covers "all employments of profit," that is to say, the income of employees as such

The normal assessment is the amount of the income from the employment for the preceding year

EXAMPLES OF NORMAL ASSESSMENTS

		<i>Assessment</i>	
Salary for year to 31st Mar, 1928	£400	1928-29	£400
" " 31st Mar, 1929	420	1929-30	420
" " 31st Mar, 1930	440	1930-31	440

In the case of a new employment the rules of assessment are—

(1) For the year in which the employment commenced the assessment is on the actual income for that year

(2) (a) If the employment commenced on the 6th of April the assessment for the second year will be on the actual income of the preceding year (b) Otherwise, the assessment for the second year will be on the actual income of the second year

(3) For the third and subsequent years, the assessment will be on the income of the preceding year

For the first year in which the "preceding year" rule applies under the above provisions, the taxpayer has the option to be assessed on the actual income instead of on the income of the preceding year

On the cessation of an employment the rules are—

(1) For the year in which the employment ceases, the assessment will be on the actual income from the 6th of April up to the date of cessation

(2) If the actual income of the year of assessment preceding that in which the employment ceased exceeds the amount of the assessment for that year, the Revenue Authorities have

power to increase the assessment for such preceding year to the amount of the actual income for that year

EXAMPLE 21 A B is employed as a salesman at a salary of £200 plus commission. Employment commenced on the 1st July, and his earnings are as set out below. The normal assessments are set out alongside

			<i>Assessment</i>	
1st year	(From 1st July to 5th April)		£210	£210
2nd "	Complete year		360	360
3rd "	"		320	360
4th "	"		400	320
5th "	"		410	400
6th "	"		490	410
7th "	Employment ceased 30th Sept		220	220

These are the assessments as they would be if neither the taxpayer nor the Revenue Authorities claimed to have them adjusted. But A B will have the right in the third year to have the assessment reduced to actual income, viz £320. At the termination of the employment the assessment for the year preceding the termination will be reviewed, and since the actual income for that year was £490 as against an assessment of £410, the assessment for the sixth year will become £490.

From the emoluments received, the taxpayer is entitled to deduct any expenses necessarily incurred in the performance of the duties of his office, and the allowance for wear and tear of plant and machinery is also granted, for example, if A B, the salesman referred to above, used his own car for the purposes of the employment, he would be in a position to claim a deduction similar to that allowed in the case of a trader under Schedule D.

Travelling expenses are admissible deductions, but not the expense of travelling to and from a residence.

Weekly Wage Earners.

Weekly wage earners are assessed under Schedule E on the actual wages of the year. The assessments are made half-yearly, to the 5th October, and the 5th April. One-half

to persons employed as clerks, typists, draftsmen, or in any other similar capacity

A weekly wage-earner is defined in the Income Tax Act, 1918, as a person who receives wages which are calculated by reference to the hour, day, week, or any period less than a month, at whatever intervals the wages may be paid, or who receives wages, however calculated, which are paid daily, weekly, or at less intervals than a month

There are two other instances where assessments under Schedule E are based upon the actual income of the year of assessment

(1) Leave pay, pensions, and annuities payable in Great Britain or Northern Ireland in respect of service abroad under the Crown, where liability to income tax attaches by virtue of the provisions as to residence

(2) Where an office or employment is exercised occasionally or intermittently in the United Kingdom by a person who is not continuously resident therein

CHAPTER IX

MISCELLANEOUS PROVISIONS

SEVERAL miscellaneous matters must have our attention in this chapter

Husband and Wife—Separate Assessments.

The income of the wife is deemed to be the income of the husband, and he is the person assessable. But either the husband or the wife may make application for separate assessment. Notice must be given within six months prior to the 6th July in the year of assessment for which the claim is made, e.g. application for separate assessment for 1930-31 must be made between the 6th January, 1930 and the 6th July, 1930. The effect of the application is that the incomes of the husband and of the wife will be respectively assessed in their own names, and the tax payable apportioned between them. The total tax payable remains the same as though no application were made. Moreover, the husband cannot escape altogether the liability to pay tax in respect of his wife's income. If she refuses to pay, he can be called upon to do so, and if he refuses his goods can be distrained upon.

The apportionment of reliefs and allowances is made according to the following rules—

EARNED INCOME ALLOWANCE In proportion to the amount of the respective earned incomes

OTHER ALLOWANCES In proportion to the tax which would be payable if the only relief or allowance were the earned income allowance

DEPENDENT RELATIVES AND/OR CHILDREN To that one of the married persons who maintains the relative or child

LIFE ASSURANCE PREMIUMS To the husband or wife as the case may be, by whom the payments are made

EXAMPLE 23

Husband's earned income	£600
Wife's earned income	120
Husband's unearned income	400
Wife's unearned income	200

There is one child (maintained jointly) The husband supports a dependent relative, and pays £60 premiums The wife pays £20 premiums (All policies are dated after June, 1916)

	Husband			Wife		
	£	s	£ s d	£	s	£ s d
Earned income			600 --			120 --
Unearned income			400 --			200 --
			<u>£1000 --</u>			<u>£320 --</u>
Tax at standard rate on total income			200 --			64 --
Deduct tax at standard rate on earned income allowance	£100	- at 4s	20	£20	- at 4s	4 --
			180 --			60 --
[Allowances common to both are apportioned in the ratio 180 60]						
Personal allowance [£270, i.e. £225 + £45]	202	10		67	10	
Child	45	--		15	--	
Dependent relative (husband only)	25	--				
	£272	10 at 4s	54 10 --	£82	10 at 4s	16 10 --
Relief at half-rate (max)			125 10 --			43 10 --
			16 17 6			5 12 6
Allowance for life assurance premiums			108 12 6			37 17 6
	£60	at 2s	6 --	£20	at 2s	2 --
Tax payable	By husband		<u>£102 12 6</u>	By wife		<u>£35 17 6</u>

If no application for separate assessment were made the tax payable would be the same

Tax at 4s on total income £1,320		£	s	d
Deduct tax at 4s on allowances	£475 @ 4s	264	—	—
		95	—	—
		<hr/>		
		£169	—	—
Relief at half-rate		£	s	d
„ for premiums (£80 @ 2s)		22	10	—
		8	—	—
		<hr/>		
			30	10
		<hr/>		
Total		£138	10	—
		<hr/>		

Charges on Income.

The correct treatment of charges on income is very frequently a source of difficulty and confusion. The fundamental rule in this connection is that where a person has to make any annual payment (e.g. interest on loan, ground rent) out of "profits or gains brought into charge to tax," or in other words out of assessable income, he is not allowed any relief or allowance on so much of his income as is represented by the annual payment.

It follows that tax at the full standard rate will be charged upon that person in respect of the payment. It also follows that if the payment is made out of earned income, the amount of the payment must be deducted from the total earned income, and the one-sixth allowance calculated on the balance remaining. Tax at the full standard rate may be deducted when the payment is made, and this tax is recovered by the Revenue Authorities from the payer of the interest, etc. The rule stated above enables this to be done.

In order to preserve the earned income allowance as far as possible, charges on income should be set against unearned income in the first place. The following example may make the matter clearer—

EXAMPLE 24 A B owns a house annual value £36 (net assessment £27). He pays £4 a year ground rent, and £30

mortgage interest His assessment under Schedule E for the current year is £247

		<i>Tax payable</i>		
		£	s	d
<i>Schedule A Assessment</i> —£27 at 4s		5	8	—
<hr/>				
<i>Schedule E Assessment</i>	£247			
Balance of interest	7 charged @ 4s	1	8	—
	£240			
<hr/>				
Tax at 4s on £240		£48	—	—
<i>Deduct tax at 4s on—</i>				
Earned income allowance ($\frac{1}{8}$ of £240)	£ 40			
Personal allowance	135			
	£175 @ 4s	£35	—	—
		£13	—	—
<i>Deduct one-half</i>		6	10	—
			6	10
<hr/>				
Tax payable under Schedule E			£7	18
<hr/>				

In the result A B bears tax on the amount of his net income after deducting the charges; he is entitled to deduct tax on the charges when making his periodical payments, and he will have this amount in hand.

Deduction of Tax.

Persons making annual payments out of "profits or gains brought into charge to tax" (that is, out of taxed income) are required to deduct tax at the standard rate in force at the time the payment is due. This rule applies to the following classes of payments—

Ground rents

Mortgage, or other interest, annuities, patent royalties, mineral rents, and similar payments

Dividends paid out of profits or gains of companies

[Deductions in respect of tax paid under Schedule A are not affected—the actual tax paid (so far as the assessment does not exceed the rent) being the amount to deduct from rent.]

The effect of these provisions will not be apparent so long as the rate of tax remains unaltered. But supposing that the rate of tax for 1930-31 were 3s 6d in the £, a person who paid half-yearly interest on the 30th June, 1930, would be required to deduct tax at the rate of 3s 6d on that date, although for three months of the period during which the interest was accruing the standard rate was 4s.

When a person makes an annual payment otherwise than out of profits or gains brought into charge to tax (e.g. out of capital), he is required to deduct tax at the rate in force at the time of payment. He must account for the tax to the Commissioners of Inland Revenue and pay it over.

Every agreement for payment of interest, rent, or other annual payment in full without deduction of tax is void.

The periodical payments to a building society include both principal and interest. Some societies arrange for the borrower to deduct tax in the ordinary way. Under an alternative arrangement a society may undertake to account for tax on interest paid to it, in which case the borrower pays the interest gross, treating the whole of the interest as a charge upon his income.

Persons Receiving Income Taxed at Source.

We have discussed the cases in which income received without deduction of tax is assessed in the hands of the recipient, and we have seen how the amount of that kind of income for any given year of assessment is to be determined. For the purposes of making a return of total income the amount to be entered is the amount arrived at according to the rules of assessment appropriate to the class of income.

A further question now arises. To which year of assessment does income taxed at source relate in the hands of the recipient? The answer is that such income relates to the year for which tax has been deducted, notwithstanding that it has accrued or will accrue partly before or after that year. For example, in the case instanced above the recipient of the half-yearly income on the 30th June, 1930, will treat it as

the income of 1930-31, that being the year for which tax is deducted

In completing the return of total income the gross amount before deduction of tax will, of course, be entered

Residence.

Residence or non-residence in the United Kingdom is a very important factor in determining liability to income tax. The subject bristles with difficulties, but the following summary of the position will perhaps prove useful—

PERSONS RESIDENT IN THE UNITED KINGDOM Tax extends to *all* income whether arising within the United Kingdom or not, with the sole exception that income from foreign possessions other than stocks, shares, and rents assessable under Case V of Schedule D is assessed only so far as such income is receivable in this country

PERSONS NON-RESIDENT IN THE UNITED KINGDOM Tax extends to all income arising within the United Kingdom (except from Government securities issued under a condition that income tax shall not be chargeable where the holder is non-resident), and to so much of the income arising from foreign securities and possessions abroad (Cases IV and V of Schedule D) as is remitted to this country

PERSONS TEMPORARILY RESIDENT IN THE UNITED KINGDOM Tax under Cases IV and V of Schedule D will not be charged upon a person as a resident if—

- (1) He is in this country for some temporary purpose only.
- (2) He does not intend to establish his residence in this country
- (3) He has not actually resided in this country for a period of six months, whether consecutive or not in any year of assessment

All three conditions must be satisfied at the same time, otherwise the person will be assessed as though he were a resident

NON-RESIDENTS AND INDIVIDUAL ALLOWANCES The allowances to individuals dealt with in Chapter II are only granted

to individuals resident in the United Kingdom, but a measure of relief is granted in the case of—

(a) a British subject ;

(b) a person who is, or has been, in the service of the Crown or who is employed in the service of any missionary society or in the service of any native state under the protection of His Majesty,

(c) an individual resident in the Isle of Man or the Channel Islands,

(d) an individual who has previously resided within the United Kingdom and is resident abroad for the sake of his health or the health of a member of his family resident with him,

(e) a widow whose late husband was in the service of the Crown

The calculation of the limit of relief will perhaps be better explained by direct reference to an example—

EXAMPLE 25 A British subject resident in New York has a total income of £1,000 including £200 arising within the United Kingdom and chargeable with tax

(1) First calculate the amount of tax that would be payable if the whole of the income were subject to tax

	£	s	d
Tax on £1,000 at 4s	200	—	—
Less tax at standard rate on—			
Allowances, say, £245 at 4s	49	—	—
	151	—	—
Less allowance of tax at half-rate (maximum)	22	10	—
	£128	10	—

(2) Ascertain the proportion of United Kingdom income to total income $\frac{£200}{£1000} = \text{one-fifth}$

(3) The tax payable in respect of United Kingdom income £200 is one-fifth of £128 10s or £25 14s

If the individual were not a British subject or included in any of the above-mentioned categories, he would be liable to tax at the full standard rate on £200, i.e. £50

CHAPTER X

CLAIMS AND APPEALS

WHEN a notice of assessment is received it is important that any objection to it on the part of the person assessed should be notified within twenty-one days from the date of the notice. If this is not done the taxpayer loses his right of appeal, the assessment will be confirmed, and he cannot have it amended thereafter except upon grounds of error or mistake (see Chapter XI). The General Commissioners may, however, on proof of the facts proceed with an appeal where the appellant has been precluded from appealing in due time by reason of absence, sickness, or other reasonable cause.

Notice of any appeal to the General Commissioners should be given in writing to the Inspector. In the case of an appeal against an assessment made under Schedule D or according to the rules applicable to Schedule D (e.g. nurseries and market gardens), the notice of appeal must state the grounds on which the appeal is made. But this will not preclude the appellant from going into other grounds at the hearing if the Commissioners are of opinion that the omission was not wilful or unreasonable.

The General Commissioners fix a date for hearing the appeal and give notice thereof to the appellant, who may either conduct his case himself or employ a barrister or solicitor to plead it for him. The Commissioners must also hear any accountant (being a person who has been admitted a member of an incorporated body of accountants).

If the majority of Commissioners present are satisfied on the evidence of the appellant or other witnesses that the appellant is overcharged, the assessment will be reduced or discharged. Otherwise the assessment stands good. In disputes as to the annual value under Schedules A and B the appellant may request that the lands be valued by a person

of skill, the costs of such valuation abiding the decision and being in the discretion of the Commissioners

Appeals against assessments under Schedules D and E may be made either to the General or Special Commissioners

Appeal from the decision of the Commissioners is by way of case stated for the opinion of the High Court. A declaration of dissatisfaction must be made immediately after the decision is given, and the dissatisfied party has then twenty-one days in which to give notice (in writing) requiring the Commissioners to state a case. While these proceedings are pending the assessment as determined by the Commissioners is effective and tax is payable in accordance with it, subject to adjustment when the matter is finally disposed of.

There is a right of appeal from the High Court to the Court of Appeal, and from thence to the House of Lords.

Repayment Claims.

Tax paid under an assessment which has not been appealed against or which has been unsuccessfully appealed against cannot be recovered on the ground that the *assessment* was excessive (but see Mistake in next chapter).

Repayment of excessive tax paid may, however, be claimed in a number of cases of which the following are the most usual types—

(1) Where individual allowances and reliefs (Chapter II) have not been given

(2) As a relief for loss

(3) Special cases of relief dealt with in the next chapter

Where it is desired to secure relief in respect of a loss by way of repayment of tax, notice must be given within the period indicated in the sections of this book dealing with this relief.

In other cases the general rule is that claims for repayment may be made at any time within six years after the end of the year of assessment to which the claim relates. When occasion arises, notice should be given to the Inspector indicating the nature of the claim, and he will supply a form appropriate to

the case. A statement of total income from all sources will be required if this has not already been provided. Receipts for tax paid and other documentary evidence necessary in support of the claim will be required (e.g. certificates of deduction of tax, dividend warrant counterfoils, receipts for life assurance premiums, etc.)

CHAPTER XI

SPECIAL CASES OF RELIEF

RELIEF is given in such special cases as mistake, bank interest, contingency claims, and Dominion income tax

Mistake.

If a person who has paid tax under Schedule D or Schedule E discovers that the assessment was excessive by reason of some error or mistake in the return or statement made by him for the purpose of assessment, he may apply for repayment of the excessive tax paid. Any application under this section must be in writing and sent to the Commissioners of Inland Revenue within six years after the end of the year of assessment in question. The Commissioners of Inland Revenue have power to determine the matter, but there is a right of appeal from their decision to the Special Commissioners.

In practice, this relief has been found to be of strictly limited application. It does not apply to the *basis* on which the return was made if that basis was in accordance with the practice prevailing at the time. It relates only to errors made by the applicant himself, for example, if an assessment under Schedule E is made on a return furnished by an employer, any consequent error will probably be held to be the employer's and not the claimant's.

It does, however, offer a means of reopening cases of genuine blundering.

Bank Interest.

Banks very frequently collect interest on loans made by them, by the simple means of debiting the customer's current account with the interest due in full. Hence, the borrower has no opportunity of deducting the appropriate tax and retaining it as a set-off against tax deducted from his own income.

Section 36 of the Income Tax Act, 1918, enables a claim to be made for repayment of tax on the amount of the interest so paid

Since students and others frequently find this provision obscure a simple illustration of the principle involved is given

A B owns property assessed Schedule A net £800. He pays in 1929-30 £120 interest to the Bank without deduction. On the 1st January, 1930, the occupiers will pay tax at the standard rate on the Schedule A assessments, so that A B's cash position is, assuming the actual rents to be £1,000—

Rents	£ 1,000
Less tax at 4s on £800	160
	<hr/>
	840
Less interest paid in full	120
	<hr/>
	£ 720
	<hr/>

If he had been in a position to deduct tax at source the figures would be—

Rents	£ 1,000
Less tax at 4s on £800	£160
Less interest—net	96
	<hr/>
	256
	<hr/>
	£ 744
	<hr/>

A B should make a claim for repayment in respect of the difference of £24. The Inspector will provide a special form for completion. A certificate must be obtained from the Bankers that so much interest has been paid in full, and vouchers for tax paid on £120 must accompany the claim.

Contingency Claims.

This is a special provision enabling repayment of tax to be claimed in cases where a fund has been established under a will or other settlement, and directions have been given to accumulate the income of the fund for the benefit of a person contingently on his attaining some specified age, or marrying

If the income of the fund vested absolutely in the beneficiary he would be in a position to claim allowances and reliefs year by year as the income accrued. But since the benefit is only *contingent* on the happening of a specified event the income is not the beneficiary's unless and until that event occurs. Thus if the beneficiary dies before attaining the specified age or before marrying the income cannot be treated as his. But when the contingency does happen the Income Tax Acts make provision for reviewing the position, treating the income of each year as the income (or part of the income) of the beneficiary under the will or settlement. Taking into account any allowances to which the individual is entitled, a recalculation of tax is made for each of the years during which the income was accumulating. Tax found to have been overpaid can be reclaimed. The claim must be made within six years after the end of the year of assessment in which the contingency occurred.

Dominion Income Tax Relief.

The subject of double taxation of income is apt to prove highly technical, and any detailed discussion of the working of this relief would be out of place in a book of this nature. But the underlying principle will be outlined.

Supposing that a person is assessable under Case IV or Case V in respect of income amounting to, say, £1,000 arising abroad, and that he has to pay foreign income tax thereon at, say, 1s in the £, he will be entitled to treat the £50 so paid as an expense, and the balance £950 will be assessed to United Kingdom income tax. That is, he will pay 4s in the £ on £950, or £190. So that on income amounting to £1,000 he will pay tax totalling £240.

The object of the Dominion Income Tax Relief is to give a relief in the *rate* of tax payable. Thus, if he could set the rate of foreign tax against the rate of United Kingdom income tax, and charge 3s in the £ on the whole of the foreign income, the amount of tax payable would be £200 (*viz*, £50 foreign and £150 United Kingdom), representing a substantial gain

to the taxpayer. The legislation on the subject embodies this principle of giving relief in the rate of tax, and is concerned with fixing limits within which the relief is to operate.

The relief given will not exceed one-half of what is called the "appropriate rate" of United Kingdom income tax. An example will illustrate how the appropriate rate is determined—

Total income £1,200 (including £200 Dominion income)			
Tax at 4s on £1,200	£	s	d
	240	-	-
Deduct tax at standard rate on—			
Allowances, say, £335 at 4s	67	-	-
	<hr/>		
Deduct allowance of tax at half-standard rate (max)	£173	-	-
	22	10	-
	<hr/>		
Tax payable	£150	10	-
	<hr/>		

This sum, £150 10s, is regarded as tax payable in respect of £865 (i.e. £1,200 less £335 the amount of income which does not attract tax by reason of allowance of tax at the full standard rate). The appropriate rate of tax is £150 10s divided by 865 equal to 3s 6d (approximately) in the £.

In calculating the appropriate rate relief in respect of Life Assurance Premiums is ignored.

The relief available in the example will be on £200 at the Dominion rate of tax, or 1s 9d in the £, whichever is the less.

Supposing the Dominion rate were 3s, the tax payable would be—

As calculated	£	s	d
	150	10	-
Less relief at 1s 9d on £200	17	10	-
	<hr/>		
United Kingdom tax payable	£133	-	-
	<hr/>		

The relief will be given by way of a reduction of the tax chargeable in the first instance if the claimant establishes his claim before the 1st January in the year of assessment otherwise by way of repayment of tax.

If a company secures Dominion income tax relief it must

CHAPTER XII

SUR-TAX—GENERAL NOTES

SUR-TAX is additional income tax chargeable upon income in excess of £2,000. The statutory income of the year of assessment for ordinary income tax purposes is the income for sur-tax purposes. Annual payments may, however, be deducted from total income, since the payer is only entitled to deduct tax at the standard rate of income tax to cover so much of his income as is equal to the charges. Sur-tax is assessed and charged by the Special Commissioners in one sum. It is regarded as an instalment of income tax due and payable on the 1st January following the end of the year of assessment to which it relates.

The rates of sur-tax at present in force are—

Exemption limit, £2,000		<i>Rate per £</i>
Tax payable on income exceeding £2,000—		<i>s d</i>
On first £500		— 9
On next £500		1 —
„ £1,000		1 6
„ £1,000		2 3
„ £1,000		3 —
„ £2,000		3 6
„ £2,000		4 —
„ £5,000		4 6
„ £5,000		5 —
„ £10,000		5 6
Remainder (over £30,000)		6 —

EXAMPLE Total income for 1929-30, £5,500

Sur-tax payable—

First	£2,000		<i>nil</i>
	£500 at 9d	£	<i>s d</i>
	£500 at 1s	18	15 —
	£1,000 at 1s 6d	25	— —
	£1,000 at 2s 3d	75	— —
	£500 at 3s	112	10 —
		75	— —
Total income	£5,500	Sur-tax	£306 5 —

(payable on or before 1st January, 1931)

Notice that the tax is calculated on each successive block of income at the rate appropriate thereto

If a husband or wife has claimed separate assessment, sur-tax is apportioned on the basis of their respective total incomes. If in the foregoing example the husband's income were £3,300 and the wife's £2,200, the sur-tax payable would be—

			£	s	d
By the husband	$\frac{2200}{3300} \times £306$	5s	183	15	—
By the wife	$\frac{2200}{3300} \times £306$	5s	122	10	—
			<hr/>		
			£306	5	—
			<hr/>		

Sur-tax is payable only in respect of individuals. In view, however, of the possibilities of evasion by means of the formation of private companies and allowing large profits to remain undistributed, elaborate provisions have been laid down for assessing sur-tax and charging companies where these conditions obtain. There are also provisions for bringing within the scope of sur-tax profits on the purchase and sale of securities cum dividend in certain cases.

APPENDIX I

EXEMPTION

Classes of Income Exempted from Tax.

Wounds and disability pensions

Accumulated interest on National Savings Certificates

Income from scholarships

These are totally exempted and are not required to be included in any return of total income

Income Exempt from Income Tax.

Interest on 4 per cent Tax Compounded War Stock and Bonds

The exemption extends to income tax only and the income must be included in a return of total income. The amount to be so included is the gross amount which, after deduction of tax at the standard rate, equals the net interest, i.e. with tax at 4s the gross rate of interest is 5 per cent, equal to 4 per cent net. If an individual is not liable to tax at the standard rate on any part of his income he cannot claim repayment of income tax in respect of the interest on these securities.

Bodies and Classes of Persons Entitled to Claim Exemption.

The bodies and classes of persons included in the following list are entitled to total or partial exemption in respect of their incomes. It is impossible to go into any detail in a book of this character.

Approved societies and insurance committees under the National Health Insurance Acts

British Museum, the

Charitable institutions

Colleges and public schools

Co-operative societies

Foreign Ministers of State, High Commissioners, Agents-General and their staffs

Hospitals

Industrial and provident societies
 Public libraries
 Registered friendly societies
 Savings banks
 Scientific institutions
 Trade unions

Earned Income—Definitions.

Income Tax Act, 1918, Section 14 (3) provides—

“ Earned income ” means—

(a) Any income arising in respect of any remuneration from any office or employment of profit held by the individual, or in respect of any pension, superannuation, or other allowance, deferred pay, or compensation for loss of office, given in respect of the past services of the individual or of the husband or parent of the individual in any office or employment of profit, or given to the individual in respect of the past services of any deceased person, whether the individual or husband or parent of the individual shall have contributed to such pension, superannuation allowance, or deferred pay, or not, and

(b) Any income from any property which is attached to or forms part of the emoluments of any office or employment of profit held by the individual, and

(c) Any income which is charged under Schedule B or Schedule D, or the rules applicable to Schedule D, and is immediately derived by the individual from the carrying on or exercise by him of his trade, profession, or vocation, either as an individual, or in the case of a partnership, as a partner personally acting therein

Rates of Income Tax and Super-tax.

<i>Year of Assessment</i>	<i>Standard Rate</i>
1920-21 }	
1921-22 }	6s
1922-23 }	5s
1923-24 }	4s 6d
1924-25 }	
1925-26 }	
1926-27 }	
1927-28 }	4s
1928-29 }	
1929-30 }	

Sur-tax takes the place of super-tax as from 1928 The rates for 1925-26 to date are as set out on page 77

APPENDIX II

EXERCISES

1 A Com's income is £502, including £300 earned. Show the tax payable in each of the following cases—

- (a) If he is single
- (b) If he is married
- (c) If he is married and has one child
- (d) If he is a widower and is entitled to the "house-keeper's" allowance
- (e) If his wife is over 65
- (f) If included in the £300 is £60 income earned by his wife

2 Calculate the income tax payable in each of the cases (a) to (e) above if the total income were £2,000 including £1,800 earned.

3 P Dodd pays life assurance premiums as follows—

- (i) £30 on a £500 policy dated February, 1916.
- (ii) £30 on a £750 policy dated July, 1917.
- (iii) £25 on a 10-year endowment policy for £250 dated 1920.

What is the amount of the relief allowed if Dodd's total income is

- (a) £312
- (b) £1,500
- (c) £2,200
- (d) £1,999

4 In each of the following cases assess the Annual Value of the property concerned and state the net assessment under Schedule A—

- (a) Rent of house £52 Landlord executes repairs; tenant pays rates

(b) Rent of house £52 Tenant executes repairs (£13) and pays rates

(c) Rent of house £52 Landlord executes repairs and pays rates (£12)

(d) Rent of farm lands £2.10

5 A married man over 65 owns twelve houses, eight of which are let at £60 a year and the remaining four at £40 a year. The landlord executes repairs and the tenant pays rates. Give the assessments under Schedule A, and state how much tax is payable for the current year (assuming no other income)

6 A farmer owns his lands assessed under Schedule A at £210 net. He keeps accounts of his farming business, which show the following results—

Year 1	Profit	£200
.. 2	"	£300
.. 3	"	£220
.. 4	Loss	£ 80
.. 5	Profit	£360

(a) State the normal assessments under Schedule B throughout

(b) What courses are open to him as regards years 1, 3, and 4? (Do not go into the question of alternative assessment under Schedule D)

7 What would be the assessments following for five years if the farmer in Question 6 had elected to be assessed according to the rules of Schedule D throughout?

8 A business is commenced on 1st October, 1928, and the adjusted profits for each year to the 30th September are as follows—

Year 1	£600
.. 2	£480
.. 3	£900
.. 4	£1,200
.. 5	£810
.. 6	£2,100

What are the assessments for each year based on these figures?

9 If the business in Question 8 were owned by a single trader, and he disposed of it entirely on the 31st December, 1932, what would be the assessments—

- (a) on the original trader,
- (b) on his successor?

10 Machinery costing £5,000 is replaced after five years by new machinery costing £6,000. The old machinery realized £1,000. Wear and tear claims totalling £204 have been admitted. What deduction is allowed in these circumstances?

11 Adjust the following account for income tax purposes

PROFIT AND LOSS ACCOUNT

To Office Salaries	£ 600	By Gross Profit	£ 3,000
„ Bad Debts	120	„ Rents Received	500
„ Interest on Loan	200	„ Profit on Sale of Investments	50
„ Bank Charges	15		
„ Carriage	56		
„ Rent of Business Premises	300		
„ Repairs to Business Premises	50		
„ Depreciation of Plant	120		
„ Income Tax	84		
„ Interest on Capital	250		
„ Balance—Net Profit	1,755		
	<u>£3,550</u>		<u>£3,550</u>

12 A company's accounts as adjusted show—

Year to 31st December, 1928	Profit	£5,100
„ „ 1929	Loss	£1,000
„ „ 1930	Profit	£3,040

State the amount of tax for each year if

- (a) the company elects to carry forward the loss under Section 33 of the Finance Act, 1926,
- (b) the company claims repayment in respect of the loss

13 In circumstances similar to that set out in Question 12, but assuming that the business is owned by an individual

with other income from investments amounting to £2,200 a year, state the income tax payable for each year if

- (a) he elects to carry forward the loss,
- (b) he claims repayment

(Personal allowance may be taken as £135)

14 Take the trading results of Question 8, and assume that the business is commenced on 1st October, 1928, by two partners sharing two-thirds and one-third respectively. Individual allowances are £225 in each case. Calculate the tax payable by the firm for each year if the business is treated as discontinued in the seventh year—profits from 1st October, 1934, to date of cessation (30th June, 1935), £1,500.

15 A Black receives interest on a Bank Deposit Account as follows—

For nine months to 31st March, 1929	.	.	£45
„ year to „ 1930	.	.	£60
„ „ „ 1931	.	.	£30

Under what provisions of the Income Tax Acts will this interest be assessed, and state the assessments for as many years as possible?

16 B Brown has foreign possessions yielding £200 a year. State what further information you would require before you could ascertain the assessment for each year.

17 J Smith disposes of his foreign shares. The income, therefore, has been—

Year of cessation	.	£150
„ preceding year of cessation		<i>nil</i>
Previous year	.	£130

What will be the assessments for the last two years?

18 B Broke is appointed a company director on 1st October, 1927. He receives fees as follows—

1927-28	.	.	.	.	£100
1928-29	.	.	.	.	£300
1929-30	.	.	.	.	£200

He receives no further remuneration, and in 1931-32 the

company is wound up State the assessments for as many years as possible

19 R Stokes is a manager receiving an annual salary of £600 together with a commission amounting to £240 for year to 31st December, 1928, and £300 for year to 31st December, 1929 What do you consider the assessment for 1929-30 should be?

20 A weekly wage-earner's wages are assessed at £120 for the half-year to 5th October, 1928, and at £150 for the half-year to 5th April, 1929 How much tax should he pay for 1928-29 for each half-year if

- (a) he is married,
- (b) he is a widower?

21 Compute the separate assessments of husband and wife for 1929-30 in the following circumstances—

The husband has been in employment up to the 31st August, 1929, at a salary of £30 a month On the 1st September, 1929, he commenced business on his own account, and his profits for the year to 31st August, 1930, amount to £504 The wife owns property assessed at £185 net

22 R Chack has contracted to pay interest on a loan of £500 at such a rate as will yield 4 per cent per annum after deduction of tax The property mortgaged (a house) is assessed at £80 gross R Chack's assessment under Schedule D for the current year is £600 Show the liability to tax, assuming he is married and has three children

23 A Twist has left Birmingham and has gone to reside in the South of France on account of his wife's health He is now a sleeping partner in his Birmingham business, his share of the assessment for the current year being £1,500 He has also foreign securities yielding £500 a year What is his tax liability in the circumstances?

24 An American on a visit to London cables to New York to remit a thousand dollars Do you think he is liable to tax on this remittance? Give reasons

25 A London doctor has a total income of £1,800, of which £1,200 is derived from his practice and £600 from investments taxed at 1s 3d in the £ in a British Dominion. Assuming that he is married, and has one child, what is his liability to tax?

26 S Banks has a total income of £8,500 for 1929-30. When will surtax be payable and how much will it amount to?

ANSWERS

- (1) (a) £30 18s, (c) £16 14s, (e) £20 3s 4d,
(b) £22 18s, (d) £19 14s, (f) £18 14s
- (2) (a) £300 10s, (c) £270 10s,
(b) £282 10s, (d) £276 10s, (e) £282 10s
- (3) (a) £5 4s, (b) £9 5s, (c) £10 15s, (d) £10 11s
- (4) Annual value—(a) £52, (b) £65, (c) £40, (d) £240
Net assessment—(a) £42, (b) £52, (c) £30, (d) £210
- (5) Schedule A net—8 at £48, 4 at £30. Statutory income,
£504. Tax payable, £21 3s 4d
- (6) (a) £240
- (7) £200, £300, £220, nil, £280
- (8) £300, £540, £600, £480, £900, £1200, £810, £2,100
- (9) (a) £300, £540, £600, £1,050, £802 10s
(b) £202 10s, £1,307 10s, £810, £2,100
- (10) £3,796
- (11) Adjusted profit, £1,859, subject to claims for wear and tear
- (12) (a) Tax for 1929-30, £1,020, 1930-31, nil, 1931-32, £408
(b) „ 1929-30, £820, 1930-31, nil, 1931-32, £608
- (13) (a) Income tax for—
1929-30, £1,360 10s, 1930-31, £390 10s,
1931-32, £748 10s
(b) Income tax for—
1929-30, £1,160 10s, 1930-31, £390 10s,
1931-32, £948 10s
- (14) nil, £7 10s, £10 16s 8d, £4 3s 4d, £35, £76 13s 4d,
£206 13s 4d, £5 5s 6d

- (15) 1928-29, £45, 1929-30, £60, 1930-31, £30, 1931-32, £30
- (17) Year of cessation—Actual, £150
 Preceding year assessment (unaltered), £130
- (18) 1927-28, £100, 1929-30, £200,
 1928-29, £300, 1930-31, £200, 1931-32, *nil*
- (19) $600 + (\frac{3}{4} \text{ of } £240) + (\frac{1}{4} \text{ of } 300) = £855$
- (20) (a) *nil*, *nil*, (b) £3 5s, £5 15s
- (21) Tax payable by husband, £29, by wife, £14 10s
- (22) £20 8s (25) £203
- (23) £249 7s 6d (26) 1st Jan, 1931, £831 5s

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